

Working draft for discussion purposes only

VALENTINE INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2011

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

Working draft for discussion purposes only

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CERTIFICATE OF BOARD

Valentine Independent School District
Name of School District

Jeff Davis
County

122-902
Co. - Dist. Number

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

Signature of Board Secretary

Signature of Board President

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

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FINANCIAL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS
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LUBBOCK, TEXAS 79423-1954

Independent Auditors' Report

UNQUALIFIED OPINION ON THE BASIC FINANCIAL STATEMENTS

Board of School Trustees
Valentine Independent School District
Valentine, Texas

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Valentine Independent School District, as of August 31, 2011, and the respective changes in financial position, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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The Management's Discussion and Analysis and budgetary comparison information on pages 3-8 and 29, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of Management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information, including the Texas Education Agency requested schedules, listed in the table of contents is likewise presented for purposes of additional analysis and is also not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Balinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

_____, 2011

**VALENTINE INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

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INTRODUCTION

Our discussion and analysis of the Valentine Independent School District's financial performance provides an overview of the District's financial performance for the year ended August 31, 2011. It should be read in conjunction with the District's Basic Financial Statements and Independent Auditors' Report.

The Management's Discussion and Analysis (MD&A) is an element of the new financial reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June, 1999. The Texas Education Agency (TEA) mandated all school districts in Texas adopt the new financial reporting model effective September 1, 2001.

FINANCIAL HIGHLIGHTS

- The net assets of the District decreased by \$31,417, or 1.1%. The District's statement of activities showed total revenues \$1,434,836, and expenses totaled \$1,466,253.
- The District ended the year, August 31, 2011, with total net assets of \$2,898,836, and unrestricted net assets of \$2,239,177. The balance of cash and investments at August 31, 2011, was \$2,078,527.
- Total general fund expenditures were \$1,364,308 for the year ended August 31, 2011. This compares with general fund expenditures of \$1,530,577 for the year ended August 31, 2010. This decrease is attributable to utilizing grant money and administration's effort to have more control over the budget.
- The District's total revenues on the fund financial statements increased from \$1,447,588 in 2010-11 to \$1,362,589 in 2009-10. This increase was primarily attributable to an increase in the tax rate and taxable values.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

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

Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how the services of the District were sold to departments within the District. The fiduciary statements provide financial information about activities for which the District acts solely as a trustee.

The notes to the financial statements provide narrative explanations and additional data needed for full disclosure in the government-wide statements and the fund financial statements.

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The combining statements for non-major funds contain information about the District's individual non-major funds. The section labeled TEA Required Schedules contains data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

Government-Wide Financial Statements

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

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

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

In the Statement of Net Assets and the Statement of Activities, the District is reporting its governmental activities. The District currently has no business type activities or component units as defined in the GASB Statement no. 34.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received from the U.S. Department of Education through TEA. The District's administration establishes many other funds to help it control and manage money for particular purposes. The District's two fund types: governmental, and fiduciary – use different accounting approaches.

· Governmental funds – Most of the District's basic services are included in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The

governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following the fund financial statements.

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· Fiduciary funds – The District is the trustee, or fiduciary, for money raised by student activities. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District implemented GASB Statement No. 34 during the year ended August 31, 2002. We did not present net asset measurements in prior years since they were not required by accounting principles generally accepted in the United States of America. Our current analysis of comparative balances and changes therein compares the prior year to the current year's operations, and discusses significant changes in the accounts. Our analysis focuses on the Net Assets (Table I) and Changes in Net Assets (Table II) of the District's governmental and business-type activities.

Changes in Net Assets

The District's net assets decreased during the year ended August 31, 2011. The net assets decreased by \$31,417 (see Table II). Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$2,239,177 (Table I) at August 31, 2011. This compares with the District's unrestricted net assets at August 31, 2010, of \$2,248,155, a decrease of \$8,978.

**Table I
Valentine Independent School District
Net Assets
August 31, 2011 and 2010**

	August 31,	
	2011	2010
Cash and Temporary Investments	\$ 2,078,527	\$ 2,145,078
Receivables	202,483	177,355
Capital Assets	659,659	682,098
Total Assets	\$ 2,940,669	\$ 3,004,531
Current Liabilities	\$ 41,833	\$ 74,278
Total Liabilities	\$ 41,833	\$ 74,278
 Net Assets		
Invested in Capital Assets, Net of Related Debt	\$ 659,659	\$ 682,098
Unrestricted Net Assets	2,239,177	2,248,155
Total Net Assets	\$ 2,898,836	\$ 2,930,253

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Table II

**Valentine Independent School District
Changes in Net Assets
For the Years Ended August 31, 2011 and 2010**

	August 31,	
	2011	2010
Revenues:		
Program Revenues:		
Charges for Services	\$ 4,500	\$ 4,750
Operating Grants and Contributions	125,001	127,520
General Revenues:		
Maintenance and Operations Taxes	352,571	323,680
Grants and Contributions not Restricted	947,340	853,703
Investment Earnings	4,924	4,963
Miscellaneous	500	55,827
Total Revenue	\$ 1,434,836	\$ 1,370,443
Expenses:		
Instruction and Instructional-Related Services	\$ 732,431	\$ 796,855
Instructional and School Leadership	103,972	105,903
Student Support Services	20,356	520
Student Transportation	57,286	62,449
Food Services	8,192	7,477
Extracurricular Activities	62,509	52,825
General Administration	236,989	231,935
Plant Maintenance and Data Processing	139,290	141,987
Facilities Acquisition and Construction	102,728	59,130
Payments to Fiscal Agents	2,500	30,000
	\$ 1,466,253	\$ 1,489,081
Increase in Net Assets	\$ (31,417)	\$ (118,638)
Net Assets - Beginning of Year	2,930,253	3,048,891
Net Assets - End of Year	\$ 2,898,836	\$ 2,930,253

The District's total revenues increased from \$1,370,443 in fiscal year 2010 to \$1,434,836, an increase of \$64,393. This increase was attributable to an increase in tax rate and taxable values. The total expenses of the District decreased by \$22,828 from \$1,489,081 to \$1,466,253.

Other factors impacting the District's financial position include the following:

- The District is currently below the State maximum tax rate for maintenance and operations of \$1.04, with a rate of \$1.01520 and \$0.95000 for fiscal years ended August 31, 2011 and 2010, respectively. The District's appraised valuation of taxable property increased from \$35,012,960 to \$35,545,880, an increase of \$532,920 or 1.5%. This increase is attributable to improvement value being added to land. The total school property taxes assessed for school year 2011 were \$360,862. This is an increase of \$28,239 from the \$332,623 assessed in 2010, and is attributable to an increase in tax rates and taxable values.

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- The District's average daily attendance (ADA) is the basis for State funding at most districts. However, based on the size of the District and its sparse population, under current funding laws, the District is funded on an ADA of 130 even though its ADA is approximately 46.42.

Fund Balances

The District's total Governmental Funds fund balance was \$2,143,843. This fund balance is reported in the various Governmental funds as follows:

General Fund

Unassigned \$2,844,429 – This balance is available for current spending, however, it has been the practice of the District to try and maintain a fund balance that is at least several months operating expenses.

Committed for Construction \$1,900,000 – This represents amounts the Board of Trustees has earmarked for future facilities and transportation expenditures.

Budgetary Highlights

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments were necessary to reflect the revised estimates of revenues and expenses.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Financial statement footnote no. 6 discloses the capital asset activity of the District for the year ended August 31, 2011.

Debt

The District currently has no outstanding indebtedness.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District has budgeted \$1,250,000 in general fund revenues for fiscal year 2011-2012. This is a decrease of \$117,907 from the \$1,367,907 actual general fund revenue for the 2010-2011 fiscal year.

The District also budgeted \$1,396,685 in general fund expenditures for 2011-2012. This is an increase of \$32,377 from the actual general fund expenditures of \$1,364,308 expended in 2010-2011.

The District adopted a deficit budget for the 2011-2012 fiscal year due to expected funding declines at the State level.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Valentine Independent School District, P.O. Box 188, Valentine, Texas 79854.

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BASIC FINANCIAL STATEMENTS

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

Exhibit A-1

<u>Data Control Codes</u>		<u>Primary Government</u>
		<u>Governmental Activities</u>
	ASSETS AND OTHER DEBITS:	
1110	Cash and Temporary Investments	\$ 2,078,527
1220	Property Taxes - Delinquent	134,383
1230	Allowance for Uncollectible Taxes	(42,825)
1240	Due from Other Governments	102,982
1267	Due from Fiduciary Funds	7,943
	Capital Assets:	
1510	Land	15,332
1520	Building and Improvements, Net	483,133
1530	Furniture and Equipment, Net	<u>161,194</u>
1000	Total Assets	\$ <u>2,940,669</u>
	LIABILITIES:	
2160	Accrued Wages Payable	\$ 40,966
2200	Accrued Expenses	<u>867</u>
2000	Total Liabilities	\$ <u>41,833</u>
	NET ASSETS:	
3200	Invested in Capital Assets, Net of Related Debt	\$ 659,659
3900	Unrestricted Net Assets	<u>2,239,177</u>
3000	Total Net Assets	\$ <u><u>2,898,836</u></u>

The accompanying notes are an integral part of this statement.

VALENTINE INDEPENDENT SCHOOL DISTRICT

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Exhibit B-1

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	1	Program Revenues		6	
		Expenses	3		4
		Charges for Services	Operating Grants and Contributions	Total Governmental Activities	
11	Instruction	\$ 716,768	\$ 4,500	\$ 87,484	\$ (624,784)
12	Instructional Resources and Media Services	15,663			(15,663)
13	Curriculum and Staff Development	7,766			(7,766)
23	School Leadership	96,206		3,843	(92,363)
31	Guidance, Counseling, and Evaluation Services	19,831			(19,831)
33	Health Services	525			(525)
34	Student Transportation	57,286		611	(56,675)
35	Food Services	8,192		7,987	(205)
36	Extracurricular Activities	62,509		859	(61,650)
41	General Administration	236,989		7,311	(229,678)
51	Plant Maintenance and Operations	124,888		16,906	(107,982)
53	Data Processing Services	14,402			(14,402)
81	Facilities Acquisition and Construction	102,728			(102,728)
93	Payments to Fiscal Agent/Member Districts	2,500			(2,500)
TP	Total Primary Government	\$ 1,466,253	\$ 4,500	\$ 125,001	\$ (1,336,752)

Data Control Codes

General Revenues:

MT	Property Taxes, Levied for General Purposes	\$ 352,571
SF	State Aid Formula Grants	947,340
GC	Grants and Contributions not Restricted	500
IE	Investment Earnings	4,924
TR	Total General Revenues, Special Items, and Transfers	\$ 1,305,335
CN	Change in Net Assets	\$ (31,417)
NB	Net Assets - Beginning	2,930,253
NE	Net Assets - Ending	\$ 2,898,836

The accompanying notes are an integral part of this statement.

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

EXHIBIT C-1

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS AND OTHER DEBITS:			
1110	Cash and Temporary Investments	\$ 2,078,527	\$ 2,078,527
1220	Property Taxes - Delinquent	134,383	134,383
1230	Allowance for Uncollectible Taxes (Credit)	(42,825)	(42,825)
1240	Due from Other Governments	100,744	102,982
1260	Due from Other Funds	7,943	7,943
1000	Total Assets	\$ <u>2,278,772</u>	\$ <u>2,281,010</u>
LIABILITIES AND FUND BALANCES:			
Liabilities:			
2160	Accrued Wages Payable	\$ 38,913	\$ 40,966
2200	Accrued Expenses	682	867
2300	Deferred Revenues	91,558	91,558
2000	Total Liabilities	\$ <u>131,153</u>	\$ <u>133,391</u>
Fund Balances:			
Committed for:			
3510	Construction	\$ 1,950,000	\$ 1,950,000
3600	Unassigned	197,619	197,619
3000	Total Fund Balances	\$ <u>2,147,619</u>	\$ <u>2,147,619</u>
4000	Total Liabilities and Fund Balances	\$ <u>2,278,772</u>	\$ <u>2,281,010</u>

The accompanying notes are an integral part of this statement.

VALENTINE INDEPENDENT SCHOOL DISTRICT

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Exhibit C-2
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT
OF NET ASSETS
AUGUST 31, 2011

Data
Control
Codes

	Total Fund Balances - Governmental Funds (Exhibit C-1)	\$ 2,147,619
1	Capital assets used in governmental activities are not financial resources, and therefore, are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$1,946,207, and the accumulated depreciation was \$(1,264,109).	682,098
2	The 2011 depreciation expense of \$(63,508) increases accumulated depreciation.	(63,508)
3	Current year capital outlays are expenditures in the fund financial statement, but they should be shown as increases in capital assets in the government-wide financial statements. The effect of including the 2011 capital outlays \$41,069 is to increase net assets.	41,069
4	Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, and reclassifying various other items. The net effect of these reclassifications and recognitions is to increase net assets.	<u>91,558</u>
19	Net Assets - Governmental Activities (Exhibit A-1)	\$ <u><u>2,898,836</u></u>

VALENTINE INDEPENDENT SCHOOL DISTRICT

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Exhibit C-3

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
Revenues:			
5700 Local and Intermediate Sources	\$ 374,747	\$	\$ 374,747
5800 State Program Revenues	993,160	1,237	994,397
5900 Federal Program Revenues	<u> </u>	<u>78,444</u>	<u>78,444</u>
5020 Total Revenues	<u>\$ 1,367,907</u>	<u>\$ 79,681</u>	<u>\$ 1,447,588</u>
Expenditures:			
0011 Instruction	\$ 625,272	\$ 58,048	\$ 683,320
0012 Instructional Resources and Media Services	14,932		14,932
0013 Curriculum and Staff Development	7,404		7,404
0023 School Leadership	91,717		91,717
0031 Guidance, Counseling, and Evaluation Services	18,906		18,906
0033 Health Services	500		500
0034 Student Transportation	54,613		54,613
0035 Food Services		7,810	7,810
0036 Extracurricular Activities	59,592		59,592
0041 General Administration	225,931		225,931
0051 Plant Maintenance and Operations	105,414	13,646	119,060
0053 Data Processing Services	13,730		13,730
0081 Facilities Acquisition and Construction	143,797		143,797
0093 Payments to Fiscal Agent/Member Districts	<u>2,500</u>	<u> </u>	<u>2,500</u>
6030 Total Expenditures	<u>\$ 1,364,308</u>	<u>\$ 79,504</u>	<u>\$ 1,443,812</u>
1100 Deficiency of Revenues Under Expenditures	<u>\$ 3,599</u>	<u>\$ 177</u>	<u>\$ 3,776</u>
Other Financing Sources (Uses):			
7915 Transfers In	\$ 177	\$	\$ 177
8911 Transfers Out	<u> </u>	<u>(177)</u>	<u>(177)</u>
7080 Total Other Financing Sources (Uses)	<u>\$ 177</u>	<u>\$ (177)</u>	<u>\$ 0</u>
1200 Net Change in Fund Balance	\$ 3,776	\$ 0	\$ 3,776
0100 September 1 - Fund Balance	<u>2,143,843</u>	<u> </u>	<u>2,143,843</u>
3000 August 31 - Fund Balance	<u>\$ 2,147,619</u>	<u>\$ 0</u>	<u>\$ 2,147,619</u>

The accompanying notes are an integral part of this statement.

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

Exhibit C-4

Net Change in Fund Balances - Total Governmental Funds (Exhibit C-3) \$ 3,776

Amounts reported for governmental activities in the statement of activities (Exhibit B-1) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation \$(63,508) exceeded capital outlay \$41,069 in the current period. (22,439)

Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the net amount by which deferred revenue changed between the current year \$91,558 and the prior year \$(104,312). (12,754)

Change in Net Assets of Governmental Activities (Exhibit B-1) \$ (31,417)

VALENTINE INDEPENDENT SCHOOL DISTRICT
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STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
AUGUST 31, 2011

Exhibit E-1

	<u>Agency Fund</u>
ASSETS:	
Cash and Temporary Investments	\$ <u>21,892</u>
Total Assets	\$ <u>21,892</u>
LIABILITIES:	
Due to Student Groups	\$ 13,949
Due to Other Funds	<u>7,943</u>
Total Liabilities	\$ <u>21,892</u>
NET ASSETS:	
Restricted Net Assets	\$ <u>0</u>
Total Net Assets	\$ <u><u>0</u></u>

The accompanying notes are an integral part of this statement.

VALENTINE INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Valentine Independent School District's (the District) basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

A. REPORTING ENTITY

The Board of School Trustees (the Board), a seven-member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public. The Board has the exclusive power and duty to govern and oversee the management of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (the Agency) or to the State Board of Education are reserved for the Board, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District is not included in any other governmental "reporting entity" as defined in governmental accounting and financial reporting standards. There are no component units included within this reporting entity.

The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding entities.

B. BASIS OF ACCOUNTING AND PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities display information about the government-wide entity as a whole. These statements report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental Activities, which normally are supported by taxes, state foundation funds, grants, and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support (i.e., internal service funds are considered governmental activities and not business-type activities). The District currently has no business type activities.

In the government-wide financial statements (GWFS), long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or statement of net assets. Bond issue costs are deferred and amortized over the life of the bonds.

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

The Statement of Activities demonstrates how other people or entities, that participate in programs the District operates, have shared in the payment of the direct costs. The "Charges for Services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the District, school lunch charges, etc. The "Operating Grants and Contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Indirect expenses of other functions are not allocated to those functions but are reported separately in the Statement of Activities. Depreciation expense is specifically identified by function and is included in the direct expense to each function allocated. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

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

FUND FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Since the resources in the fiduciary fund cannot be used for District operation, they are not included in the GWFS. Major governmental funds are reported as separate columns in the fund financial statements.

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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. Revenues from local sources consist primarily of property taxes. No amounts have been recorded for property tax revenues collected after August 31, 2011. State revenues are recognized under the susceptible-to-accrual concept. 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.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

The fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements.

GOVERNMENTAL FUND TYPES

The District reports the following major governmental fund:

General Fund – This fund is established to account for resources used for general operations. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. This is a budgeted fund and undesignated fund balances are considered resources available for current operations.

Additionally, the government reports the following governmental fund types:

Special Revenue Funds – These funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal financial assistance generally is accounted for in a special revenue fund. Except for the food service fund, any unused balances are returned to the grantor at the close of specified project periods. The food service fund is the only required budgeted special revenue fund. For all other funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds. The District's food service fund is considered a special revenue fund since it meets the following criteria: (1) User fees are charged to supplement the National School Lunch Program (NSLP), (2) The general fund subsidizes the food service program for all expenditures in excess of NSLP, and (3) The District does not consider the food service program completely self-supporting. Food service fund balances, if any, are used exclusively for child nutrition program purposes.

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FIDUCIARY FUND TYPES

Agency Funds – These custodial funds are used to account for activities of student groups and other organizational activities requiring clearing accounts. Financial resources for the agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. Student activity organizations exist with the explicit approval of, and are subject to revocation by, the District’s Board. If any unused resources are declared surplus by the student groups, they are transferred to the general fund with a recommendation to the Board for an appropriate utilization through a budgeted program.

C. BASIS OF ACCOUNTING APPLICABLE TO ALL FINANCIAL STATEMENTS

Capital assets, which include buildings and improvements, furniture and equipment, vehicles, and leased property, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset’s useful life are not capitalized.

Revenues from state and federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant. Funds received but unexpended are reflected as deferred revenues, and funds expended but not yet received are shown as receivables. If balances have not been expended by the end of the project period, grantors generally require the District to refund all or part of the unused amount.

Supplies and materials are debited as expenditures when purchased.

It is the District’s policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District.

When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

In accordance with the FAR, the District has adopted and installed an accounting system which exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District’s accounting system uses codes and the code structure presented in the Accounting Code Section of the FAR. Mandatory codes are utilized in the form provided in that section.

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D. BUDGETARY DATA

The official budget was prepared on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America, for the general fund, debt service fund, and the food service special revenue fund. The remaining special revenue funds adopt project-length budgets which do not correspond to the District's fiscal year. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least 10 days public notice of the meeting must be given.
- c. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.

The budget is prepared and controlled at the function level within each fund and is amended at this level as needed. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. Such amendments are made before the fact, and they are reflected in the official minutes of the Board. During the year, several amendments were necessary and expenditures exceeded appropriations in several functions.

E. ENCUMBRANCE ACCOUNTING

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at August 31, 2011.

F. FUND EQUITY

During the current year, the District has adopted GASB Statement 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Committed – Amounts that can be used only for specific purposes determined by formal action by the Board of Trustees, the highest level of decision making authority.

Unassigned – Amounts not included in other spendable classifications.

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When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its commitment or assignment actions.

During the year, the Board of Trustees adopted a minimum fund balance policy for the general fund. The policy requires the unassigned fund balance at fiscal year end to be at least 20% of the current fiscal expenditures less capital outlay and transfers out budgeted for the fund.

G. NET ASSETS ON THE STATEMENT OF NET ASSETS

Net assets on the statement of net assets include the following:

Investment in Capital Assets, Net of Related Debt – this component of net assets represents the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, which is directly attributable to the acquisition, construction, or improvement of those assets.

Unrestricted – this component of net assets represents the difference between assets and liabilities that is not reported in Net Assets Invested in Capital Assets, Net of Related Debt.

H. MANAGEMENT’S USE OF ESTIMATES

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

2. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) (the Act) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings

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accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Policies Governing Deposits and Investments

In compliance with the **Public Funds Investment Act**, the District has adopted a deposit and investment policy. That policy does not address the following risks:

- a. Custodial Credit Risk – Deposits and Investments: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits and investments may not be returned to it. The District's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state or local governments by pledging securities in excess of the highest cash balance of the government. The District is not exposed to custodial credit risk for its deposits are all covered by depository insurance and pledged securities held by a third party in the District's name.
- b. Concentration of Credit Risk – The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk. At August 31, 2011, all of the District's investments are in external investment pools, and as such the District has no risk.
- c. Credit Risk – The risk that an issuer of other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At August 31, 2011, the District was not significantly exposed to credit risk.
- d. Interest Rate Risk – Not applicable
- e. Foreign Currency Risk – Not applicable

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The carrying amount of the District's cash and temporary investments at August 31, 2011, approximates fair value and consisted of the following shown below:

Cash in Bank	\$ 142,004
Lone Star Investment Pool	<u>1,958,415</u>
Total Cash and Investments	<u>\$ 2,100,419</u>
Cash and Investments - Governmental Funds	\$ 2,078,527
Cash and Investments - Statement of Net Assets	\$ 2,078,527
Cash and Investments - Fiduciary Funds	<u>21,892</u>
Total Cash and Investments	<u>\$ 2,100,419</u>

Public Funds Investment Pools

Public funds investment pools in Texas (Pools) are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investment in Pools are reported at an amount determined by the fair value per share of the Pool's underlying portfolio, unless the Pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

3. PROPERTY TAXES

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

All delinquent taxes are recorded in the general fund. All property taxes remaining uncollected after 10 years are provided for in the allowance for uncollectible 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.

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4. INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at August 31, 2011, consisted of the following individual fund receivables and payables:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund		
Agency Funds	\$ <u>7,943</u>	\$ <u>0</u>
Agency Funds		
General Fund	\$ <u>0</u>	\$ <u>7,943</u>

5. DUE FROM OTHER GOVERNMENTS

Amounts due from other governments consisted of \$102,982 due from the State for Federal Program reimbursements as well as State Aid earned at August 31, 2011.

6. CAPITAL ASSETS

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

	<u>9/1/2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>8/31/2011</u>
Capital Assets:				
Land	\$ 15,332	\$	\$	\$ 15,332
Building and Improvements	1,189,110	41,069		1,230,179
Furniture and Equipment	<u>741,765</u>	<u> </u>	<u> </u>	<u>741,765</u>
	<u>\$ 1,946,207</u>	<u>\$ 41,069</u>	<u>\$ 0</u>	<u>\$ 1,987,276</u>
Accumulated Depreciation:				
Buildings and Improvements	\$ 701,279	\$ 45,767	\$	\$ 747,046
Furniture and Equipment	<u>562,830</u>	<u>17,741</u>	<u> </u>	<u>580,571</u>
	<u>\$ 1,264,109</u>	<u>\$ 63,508</u>	<u>\$ 0</u>	<u>\$ 1,327,617</u>
Total Net Value of Capital Assets	<u>\$ 682,098</u>	<u>\$ (22,439)</u>	<u>\$ 0</u>	<u>\$ 659,659</u>

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Depreciation expense was charged to functions of the primary government as follows:

Instruction	\$ 33,446
Instruction Resources and Media Services	731
Curriculum and Instructional Staff Development	362
School Leadership	4,489
Guidance, Counseling, and Evaluation Services	925
Health Services	25
Student Transportation	2,673
Food Services	382
Cocurricular / Extracurricular Activities	2,917
General Administration	11,058
Plant Maintenance and Operations	5,828
Data Processing Services	672
	<u>63,508</u>
	<u>\$ 63,508</u>

Capital assets are being depreciated using the straight line method over the following useful lives:

Buildings and Improvements	15 - 30 years
Furniture and Equipment	5 - 20 years

7. DEFERRED REVENUES

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Deferred revenues consisted of the following at August 31, 2011:

	<u>General</u> <u>Fund</u>
Property Taxes - Delinquent	\$ 134,383
Less: Allowance for Uncollectible Taxes	<u>(42,825)</u>
Total Deferred Revenues	<u>\$ 91,558</u>

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8. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

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

	<u>General Fund</u>
Property Taxes, Penalties, Interest, and Other Tax-Related Income	\$ 365,323
Interest Income	4,924
Rent	<u>4,500</u>
	<u>\$ 374,747</u>

9. DEFINED BENEFIT PENSION PLAN

Plan Description – All employees of the District employed for one-half or more of the standard workload and who are not exempt from membership under Texas Government Code, participate in 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 system of Texas. It operates primarily under the provisions of the Texas Constitution and Texas Government Code. TRS also administers proportional retirement benefits and service credit transfers under Texas Government Code. 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 TRS at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publication heading.

Funding Policy – State law provides for fiscal years 2009, 2010, and 2011, a state contribution rate of 6.64% and a member contribution rate of 6.40%. In certain instances, the District is required to make all or a portion of the State's 6.64% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to state funding policy. State contributions TRS made on behalf of the District's employees for the years ended August 31, 2009, 2010, and 2011, were \$39,735, \$41,704, and \$43,549, respectively. The amounts contributed by the State are reflected in the financial statements in the general fund by respective function, in accordance with Governmental Accounting Standards Board Statement No. 24. The District paid additional state contributions for the years ended August 31, 2009, 2010, and 2011, in the amount of \$4,665, \$4,818, and \$3,363, respectively, on the portion of the employee's salaries that exceeded the statutory minimum and those salaries funded from federal grants, equal to the required contributions for each year. Additionally, payments made on behalf of the District by the State for Medicare Part D fringe benefits and salaries amounted to \$1,771 for the year ended August 31, 2011.

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The payroll for employees covered by the TRS for the year ended August 31, 2009, 2010, and 2011, was \$662,249, \$616,084, and \$610,981, respectively. The District's total payroll was \$733,594, \$800,300, and \$826,330, respectively.

10. HEALTH CARE COVERAGE

During the year ended August 31, 2011, the District participated in the TRS – Active Care Program administered by the Teacher Retirement System. The District contributed \$250 of the employee-only premium per month, and employees, at their option, authorized payroll withholdings to pay contributions for dependents. Under this plan, the District is not liable for costs incurred beyond the premiums paid.

11. LITIGATION

There is no litigation pending against the District which would have a material effect on the financial statements.

12. COMMITMENTS AND CONTINGENCIES

Federal and State Funding

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, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

13. SUBSEQUENT EVENTS

The District's management has evaluated subsequent events though _____, 2011, the date which the financial statements were available for issue.

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REQUIRED SUPPLEMENTARY INFORMATION

VALENTINE INDEPENDENT SCHOOL DISTRICT

Exhibit G-1

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BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
YEAR ENDED AUGUST 31, 2011

Data Control Codes	Budgeted Amounts			Variance With Final Budget Favorable (Unfavorable)	
	1	2	3		
	Original	Amended	Actual		
Revenues:					
5700	Local and Intermediate Sources	\$ 379,200	\$ 382,500	\$ 374,747	\$ (7,753)
5800	State Program Revenues	942,133	955,013	993,160	38,147
5020	Total Revenues	\$ 1,321,333	\$ 1,337,513	\$ 1,367,907	\$ 30,394
Expenditures:					
0011	Instruction	\$ 672,825	\$ 673,590	\$ 625,272	\$ 48,318
0012	Instructional Resources and Media Services	16,000	16,000	14,932	1,068
0013	Curriculum and Instructional Staff Development	8,000	8,000	7,404	596
0023	School Leadership	100,250	100,635	91,717	8,918
0031	Guidance, Counseling, and Evaluation Services	22,515	22,515	18,906	3,609
0033	Health Services	500	500	500	0
0034	Student Transportation	59,400	59,400	54,613	4,787
0036	Extracurricular Activities	60,450	60,925	59,592	1,333
0041	General Administration	231,425	231,780	225,931	5,849
0051	Plant Maintenance and Operations	145,400	145,400	105,414	39,986
0053	Data Processing Services	13,800	13,800	13,730	70
0081	Facilities Acquisition and Construction	145,000	145,000	143,797	1,203
0093	Payments to Fiscal Agent/Member Districts	2,500	2,500	2,500	0
6030	Total Expenditures	\$ 1,478,065	\$ 1,480,045	\$ 1,364,308	\$ 115,737
1100	Excess of Revenues over Expenditures	\$ (156,732)	\$ (142,532)	\$ 3,599	\$ 146,131
Other Financing Sources (Uses):					
7915	Transfers In	\$ 0	\$ 0	\$ 177	\$ 177
7080	Total Other Financing Uses	\$ 0	\$ 0	\$ 177	\$ 177
1200	Net Change in Fund Balance	\$ (156,732)	\$ (142,532)	\$ 3,776	\$ 146,308
0100	September 1 - Fund Balance	2,143,843	2,143,843	2,143,843	0
3000	August 31 - Fund Balance	\$ 1,987,111	\$ 2,001,311	\$ 2,147,619	\$ 146,308

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OTHER SUPPLEMENTARY INFORMATION

EXHIBITS H-1 THROUGH J-4

COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2011

	<u>Special Revenue Funds</u> 287 Education Jobs Fund	Total Nonmajor Governmental August 31, 2011
ASSETS:		
Due from Other Governments	\$ <u>2,238</u>	\$ <u>2,238</u>
Total Assets	\$ <u><u>2,238</u></u>	\$ <u><u>2,238</u></u>
 LIABILITIES:		
Accrued Wages Payable	\$ 2,053	\$ 2,053
Accrued Expenditures	<u>185</u>	<u>185</u>
Total Liabilities	\$ <u><u>2,238</u></u>	\$ <u><u>2,238</u></u>
 FUND EQUITY:		
Unassigned	\$ <u>0</u>	\$ <u>0</u>
Total Fund Equity	\$ <u><u>0</u></u>	\$ <u><u>0</u></u>
 Total Liabilities and Fund Equity	\$ <u><u>2,238</u></u>	\$ <u><u>2,238</u></u>

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

Exhibit J-1

Last Ten Years Ended August 31	1		2	3	10	20	30	40	50
	Tax Rates		Assessed/ Appraised Value for School Tax Purposes	Beginning Balance 9/1/2010	Current Year's Total Levy	Maintenance Total Collections	Entire Year's Adjustments	Ending Balance 8/31/2011	
Maintenance	Debt Service								
2002 and Prior Years	Various	Various	Various	\$ 46,454	\$	\$ 431	\$ (3,198)	\$ 42,825	
2003	1.20000	0.00000	28,854,250	6,233		24	(170)	6,039	
2004	1.25000	0.00000	27,720,813	7,032		54	(173)	6,805	
2005	1.31000	0.00000	27,428,855	7,387		57	(118)	7,212	
2006	1.31000	0.00000	30,335,496	10,733		897	(117)	9,719	
2007	1.19360	0.00000	33,267,130	12,571		1,303	(134)	11,134	
2008	0.91000	0.00000	32,875,739	10,782		1,430	(105)	9,247	
2009	0.91000	0.00000	35,197,720	13,565		2,363	(108)	11,094	
2010	0.95000	0.00000	35,012,960	17,998		5,074	(213)	12,711	
2011 (School Year Under Audit)	1.01520	0.00000	35,545,880		360,862	354,107	10,842	17,597	
1000	TOTALS			\$ 132,755	\$ 360,862	\$ 365,740	\$ 6,506	\$ 134,383	

VALENTINE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2012-2013
GENERAL AND SPECIAL REVENUE FUNDS
YEAR ENDED AUGUST 31, 2011

Exhibit J-2

Working draft for discussion purposes only

Function 41 and Related Function 53 - General Administration

Account Number	1 702 School Board	2 703 Tax Collection	3 701 Supt.'s Office	4 750 Indirect Cost	5 720 Direct Cost	6 Other Miscellaneous	7 Total
611X - 6146	\$	\$	\$	\$	\$	\$	\$
6149							
6211							
6212							
6213							
621X							
6220							
6230							
6240							
6250							
6260							
6290							
6320							
6330							
63XX							
6410							
6420							
6430							
6490							
6500							
6600							
6000							
Total	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>

The District does not intend to charge indirect costs to its federal programs for the 2012-2013 school year.

Total expenditures/expenses for the General and Special Revenue Funds (Exhibit C-2) \$ 0

Less: Deduction of Unallowable Costs

	<u>FISCAL YEAR</u>	
Capital Outlay (6600) (Only Funds 100-199/200-499)	(10)	\$ <u>0</u>
Total Debt & Lease (6500) (Only Funds 100-199/200-499)	(11)	\$ <u>0</u>
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ <u>0</u>
Food (Function 35, 6341 and 6499)	(13)	\$ <u>0</u>
Stipends (6413)	(14)	\$ <u>0</u>
Column 4 (above) - Total Indirect Cost		\$ <u>0</u>
Subtotal		\$ <u>0</u>
Net Allowed Direct Costs		\$ <u>0</u>
 <u>CUMULATIVE</u>		
Total Cost of Building before Depreciation (1520)	(15)	\$ <u>0</u>
Historical Cost of Building over 50 years old	(16)	\$ <u>0</u>
Amount of Federal Money in Building Cost (Net of Above)	(17)	\$ <u>0</u>
Total Cost of Furniture & Equipment before Depreciation (1520 & 1540)	(18)	\$ <u>0</u>
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ <u>0</u>
Amount of Federal Money in Furniture & Equipment (Net of Above)	(20)	\$ <u>0</u>

VALENTINE INDEPENDENT SCHOOL DISTRICT

Working draft for discussion purposes only

Exhibit J-3

BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION FUND
YEAR ENDED AUGUST 31, 2011

Data Control Codes	1	2	3	Variance With Final Budget Favorable (Unfavorable)
	Budgeted Amounts		Actual	
	Original	Amended		
Revenues:				
5900 Federal Program Revenues	\$ 7,000	\$ 7,000	\$ 7,987	\$ 987
Total Revenues	\$ 7,000	\$ 7,000	\$ 7,987	\$ 987
Expenditures:				
0035 Food Services	\$ 7,000	\$ 7,000	\$ 7,810	\$ (810)
6030 Total Expenditures	\$ 7,000	\$ 7,000	\$ 7,810	\$ (810)
1100 Excess of Revenues Over Expenditures	\$ 0	\$ 0	\$ 177	\$ 177
Other Financing Sources:				
8911 Transfers Out (Use)	\$ 0	\$ 0	\$ (177)	\$ (177)
1200 Net Change in Fund Balance	\$ 0	\$ 0	\$ 0	\$ 0
0100 September 1 - Fund Balance	0	0	0	0
3000 August 31 - Fund Balance	\$ 0	\$ 0	\$ 0	\$ 0

Working draft for discussion purposes only

OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Working draft for discussion purposes only

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

Board of School Trustees
Valentine Independent School District
Valentine, Texas

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

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Valentine Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

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

Working draft for discussion purposes only

Compliance and Other Matters

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

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

Balinger, Segars, Silbert & Moss LLP

Certified Public Accountants

_____, 2011

VALENTINE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATE FINDINGS AND RESPONSES
YEAR ENDED AUGUST 31, 2011

Working draft for discussion purposes only

Current Year Findings and Recommendations –

None

Managements Response –

N/A

Status of Prior Year Findings –

N/A

VALENTINE INDEPENDENT SCHOOL DISTRICT
Working draft for discussion purposes only
SCHOOLS FIRST QUESTIONNAIRE
FOR THE YEAR ENDED AUGUST 31, 2011

Exhibit L-1

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	Were there any disclosures in the Annual Financial Report of material noncompliance?	No
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	\$0

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.
Working draft for discussion purposes only

REGISTERED PUBLIC ACCOUNTANTS

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FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

_____, 2011

Board of School Trustees
Valentine Independent School District
Valentine, Texas

In planning and performing our audit of the financial statements of Valentine Independent School District (the "District") as of and for the year ended August 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain matters involving the internal control and other operational matters that are presented for your consideration. This letter does not affect our report dated _____, 2011, on the financial statements of Valentine Independent School District. We will review the status of these comments during our next audit engagement. Our comments and recommendations, all of which have been discussed with appropriate members of management, are intended to improve the internal control or result in other operating efficiencies. We will be pleased to discuss these comments in further detail at your convenience, perform any additional study of these matters, or assist you in implementing the recommendations. Our comments are summarized as follows:

We recommend management cease the practice of transferring funds for extracurricular purposes to the activity fund, and account for these expenditures directly out of the general fund of the district.

We believe that the implementation of these recommendations will provide Valentine Independent School District with a stronger system of internal control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.

This communication is intended solely for the information and use of management, the Board of Trustees, others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

~~Working draft for discussion purposes only~~

Balinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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_____, 2011

Board of School Trustees
Valentine Independent School District
Valentine, Texas

We have audited the financial statements of Valentine Independent School District for the year ended August 31, 2011, and have issued our report thereon dated _____, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated March 21, 2011, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by Management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Valentine Independent School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters. Our audit of the financial statements does not relieve you or management of your responsibilities.

Other Information in Documents Containing Audited Financial Statements

Our responsibility for other information in documents containing the District's financial statements and report does not extend beyond the financial information identified in the report, in addition we do not have an obligation to perform any procedures to corroborate other information contained in these documents.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and meetings about planning matters.

Significant Audit Findings

Qualitative Aspects of Accounting

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise Management about the appropriateness of accounting policies and their application. The significant accounting policies

used by Valentine Independent School District are described in the notes to the financial statements. Adopted new policy for *Governmental Accounting Standards Board Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions*.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by Management and are based on Management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were depreciation and accrued state revenue.

Management's estimate of the depreciation is based on industry accepted guidelines, and the estimate of state revenue is based on the number school days for 2011-2012 that are in the 2010-2011 fiscal year. We evaluated the key factors and assumptions used to develop the accumulated depreciation, depreciation expense and state revenue accruals in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with Management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatement. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with Management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated _____, 2011.

Management Consultations with Other Independent Accountants

In some cases, Management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with Management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Board of School Trustees and Management of Valentine Independent School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Balinger, Segars, Gilbert & Moss LLP

Certified Public Accountants