

**GAINESVILLE INDEPENDENT
SCHOOL DISTRICT
ANNUAL FINANCIAL AND
COMPLIANCE
REPORT
FOR THE YEAR ENDED
AUGUST 31, 2013**

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GAINESVILLE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2013

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CERTIFICATE OF BOARD

Gainesville Independent School District Cooke 049901
Name of School District County Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2013 at a meeting of the Board of Trustees of such school district on the 27th day of January, 2014.



Signature of Vice President



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)

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Gainesville Independent School District
800 South Morris Street
Gainesville, TX 76240

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the remaining fund information of Gainesville 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 of 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 statement 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, including examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements.

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

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 Gainesville Independent School District, as of August 31, 2013, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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 4 through 10 and 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental

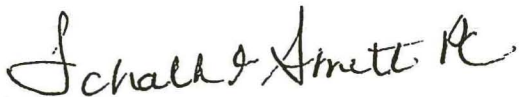
Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with 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 Gainesville Independent School District's financial statements as a whole. The combining fund financial statements and the required TEA schedules listed in the table of contents 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 fund financial statements, the required TEA schedules and the schedule of federal awards are the responsibility of management and were derived from and related directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund financial statements, the required TEA 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2013, on our consideration of the Gainesville Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering the District's internal control over financial reporting and compliance.



Schalk & Smith, P.C.
December 23, 2013

GAINEVILLE INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Gainesville Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2013. Please read it in conjunction with the independent auditor's report on pages 2 and 3 and the District's Basic Financial Statements that begin on page 11.

FINANCIAL HIGHLIGHTS

- The District's combined net position was \$24,468,206 at August 31, 2013.
- At the end of the 2013 fiscal year, fund balance for the general fund was \$8,356,862, or 40.67% of the total general fund expenditures.
- At the end of the 2013 fiscal year, the District's total long-term debt outstanding was \$36,099,259, an increase of 3.84%.
- The District adopted new accounting standards during this year. These new standards modified the presentation of a statement of financial position, including the addition of new classifications (deferred outflows of resources and deferred inflows of resources), and modified or eliminated the presentation of certain items that were previously reported as assets or liabilities. As a result of the implementation of these new accounting standards, the District's net position was decreased \$358,208 from what was previously reported as of August 31, 2012.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Gainesville Independent School District's basic financial statements. The Gainesville Independent School 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 Gainesville Independent School District finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Gainesville Independent School District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Gainesville Independent School District is improving or deteriorating. All the District's assets are reported whether they serve the current year or future years.

The *statement of activities* presents information showing how the government's net position has changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. 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 for various programs (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes

(general revenues). Liabilities are considered regardless of whether they must be paid in the current or future years.

Both of the government-wide financial statements distinguish functions of the Gainesville Independent School District that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Gainesville Independent School District include instruction, instructional resources & media services, guidance, counseling and evaluation services, health services, student transportation, food services, co curricular/extracurricular activities, general administration, plant maintenance and operations, data processing services, debt service, and payments to fiscal agents. The District has no business-type activities and no component units for which it is financially accountable. The government-wide financial statements can be found on pages 10-11 of this report.

Fund financial statements. The fund financial statements begin on page 13 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds—governmental and proprietary—use different accounting approaches.

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

The District's fiduciary responsibilities. The District is the trustee, or fiduciary, for money raised by student activities and alumnae scholarship programs. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 17. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

Notes to the financial statements. The notes to financial statements (starting on page 18) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the

District's governmental type activities. 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 by \$24,468,206, which represented an increase of \$3,560,790 over the prior year net position of \$20,907,416 (after prior period adjustment of \$358,208). Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$8,748,810 at August 31, 2013. Amounts for 2012 in the schedule below have been modified to match the 2013 presentation.

Table I
STATEMENT OF NET POSITION

	Governmental Activities 2013	Governmental Activities 2012
Current and other assets	10,689,940	6,603,364
Capital assets	50,815,320	50,558,888
Total assets	61,505,260	57,162,252
Deferred outflows of resources	1,237,682	189,241
Long-term liabilities	36,099,259	34,763,429
Other liabilities	2,175,477	1,680,648
Total liabilities	38,274,736	36,444,077
Net assets		
Invested in capital assets net of related debt	14,832,092	15,509,964
Restricted	887,304	504,354
Unrestricted	8,748,810	4,893,098
Total net assets	24,468,206	20,907,416

Investment in capital assets (e.g., land, buildings, furniture, and equipment) less any related debt used to acquire those assets that is still outstanding is \$14,832,092. 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 total net position in the amount of \$887,304 (approximately 3.6 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$8,748,810) 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.

Governmental activities. The District's total net position increased by \$3,560,790. The total cost of all governmental activities was \$26,232,827, which was \$490,158 (1.9 percent) higher than the previous year.

Table II
Changes in Net Position

	Governmental Activities 2013	Governmental Activities 2012
Revenues:		
Program Revenues:		
Charges for Services	550,971	502,565
Operating grants and contributions	5,381,924	5,411,747
General Revenues		
Maintenance and operations taxes	9,779,781	9,206,215
Debt Service taxes	2,516,170	2,595,645
Grants and Contributions not restricted to specific functions	11,511,964	9,057,168
Investment Earnings	49,274	38,866
Miscellaneous	3,533	34,669
Total Revenue	29,793,617	26,846,875
Expenses:		
Instruction, curriculum and media services	14,648,370	13,966,225
Instructional and school leadership	1,935,989	1,960,853
Student support services	1,514,167	1,597,028
Child nutrition	2,127,145	1,991,537
Co-curricular activities	983,250	965,094
General Administration	810,452	865,301
Plant maintenance, security & data processing	2,462,850	2,566,173
Facilities Acquisition & Construction	-	-
Debt services	1,566,322	1,630,845
Other Intergovernmental Charges	184,282	180,787
Total Expenses	26,232,827	25,723,843
Increase in net assets	3,560,790	1,123,032
Net position at 9/1	20,907,416	20,161,418
Prior period adjustment	-	(377,034)
Net position at 8/31	24,468,206	20,907,416

The District took actions this year to compensate for some increases in cost and a projected stable student enrollment coupled with a higher funding for the District's debt service.

- The District decreased the total property tax rates to \$1.30878 per \$100 of valuation for the current year. This decrease along with an increase in assessed valuation resulted in an increase in tax revenues from the previous year of \$494,091. State funding increased by \$2,454,796 during the current year.
- The District maintained the maintenance and operations tax rate at \$1.0400 per \$100, and decreased the interest and sinking tax rate to \$0.268780 per \$100 for a total rate of \$1.30878 per \$100 of valuation. The cost of all governmental activities this year was

\$26,232,827. However, as shown in the Statement of Activities on page 11, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$8,735,161 because some of the costs were paid by those who directly benefited from the programs (\$550,971) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5,381,924) or by other miscellaneous sources and investment earnings (\$52,807) or by State equalization funding (\$11,511,964).

THE DISTRICT'S FUNDS

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

Governmental fund - 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, the amount in unreserved, undesignated fund balance may serve as a useful measure of the District's net resources available for spending at the end of a fiscal year.

As the District completed the year, its governmental funds (as presented in the balance sheet on page 13) reported a combined fund balance of \$9,250,079, which is higher than last year's total of \$5,284,745. Unassigned fund balance represents a large portion of total fund balances (\$7,158,146 or 77.4%) and is available for future spending or unanticipated events such as state funding uncertainties, increased student enrollment, wide swings in total property tax values, future salary increases or unexpected lawsuits. The remainder of fund balance (\$2,091,933 or 22.6%) is not available for new spending because it has already been restricted or committed for debt retirement, food service and unspent grants.

The General Fund is the primary operating fund of the District. At August 31, 2013, the General Fund had unassigned fund balances of \$7,152,316 and total fund balances of \$8,356,862. As a measure of the General Fund's liquidity, it is useful to compare both fund balance amounts to total fund expenditures (\$20,546,514). Unassigned fund balance and total fund balance represent thirty-nine (35%) and forty-one (41%) of total General Fund expenditures, respectively. The unassigned fund balance represents approximately four months of annual General Fund expenditures.

Total fund balance increased by \$3,576,470 during the fiscal year. Key factors related to this change include:

- Expenditures were \$1,780,704 less than budgeted
- Revenues were \$2,605,766 more than budgeted

General Fund Budgetary Highlights

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 2012). The second category involved amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs. The third category is amendments for unexpected events.

The District made significant amendments to budgeted expenditures as follows:

- Baseball Field & Stadium Improvements (\$810,000)
- Cargo Van for Food Service (\$19,000)
- Additional Food Costs (\$111,000)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2013, the District had \$50,815,320 (net of depreciation) invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. The District major capital asset purchases for the year were related to construction of a baseball complex (\$240,755) and implementation of an energy project (\$1,371,628). More detailed information about the District's capital assets is presented in Note IV-F to the financial statements. The District had the following capital assets at August 31, 2013 and 2012:

	2013	2012
Land	\$ 2,021,069	\$ 2,021,069
Buildings and improvements, net	48,116,070	47,779,052
Furniture and equipment, net	678,181	758,767
Total	<u>\$ 50,815,320</u>	<u>\$ 50,558,888</u>

Debt

At year-end, the District had \$37,220,912 in bonds, notes and capital leases outstanding versus \$35,598,739 last year—an increase of 4.6 percent. The following bond transactions occurred during the year ended August 31, 2013:

The District successfully sold its Unlimited Tax Refunding Bonds, Series 2013 to partially refund \$7,135,000 of the outstanding Unlimited Tax School Building Bonds, Series 2006. The refunding reduced the interest rate. This reduction in interest will result in a total savings of \$2,390,256. The District also issued Series 2013 Maintenance Tax Notes in the amount of \$1,486,979. These funds were used to implement the energy project.

More detailed information about the District's long-term liabilities is presented in Note IV-G to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The District's elected officials considered many factors when setting the fiscal year 2013-2014 budget and tax rates. The District adopted the Maintenance & Operation (M&O) tax rate of \$1.04 which kept it the same as the previous year, but decreased the Interest & Sinking (I&S) tax rate to \$0.2500 for a total District tax rate of \$1.29 for 2013-2014.
- The District gave raises to employees for the 2013-2014 year.
- The District's adopted budget for 2013-2014 is a balanced budget.
- The District received \$200,000 from the Gainesville Economic Development Corporation to be used for the completion of the baseball complex.
- The District has plans for the following capital purchases for 2013-2014:
 - Completion of baseball complex
 - Construction of transportation facility at the DAEP campus
 - Demolition of Ben Franklin building

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Gainesville Independent School District, 800 South Morris Street, Gainesville, Texas 76240.

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BASIC FINANCIAL STATEMENTS

GAINESVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2013

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 8,061,564
1220 Property Taxes Receivable (Delinquent)	503,695
1230 Allowance for Uncollectible Taxes	(50,369)
1240 Due from Other Governments	2,101,877
1290 Other Receivables, net	33,478
1300 Inventories	39,695
Capital Assets:	
1510 Land	2,021,069
1520 Buildings, Net	48,116,070
1530 Furniture and Equipment, Net	678,181
1000 Total Assets	61,505,260
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	1,237,682
1700 Total Deferred Outflows of Resources	1,237,682
LIABILITIES	
2110 Accounts Payable	291,584
2140 Interest Payable	128,282
2160 Accrued Wages Payable	533,931
2180 Due to Other Governments	83,247
2200 Accrued Expenses	16,782
Noncurrent Liabilities	
2501 Due Within One Year	1,121,651
2502 Due in More Than One Year	36,099,259
2000 Total Liabilities	38,274,736
NET POSITION	
3200 Net Investment in Capital Assets	14,832,092
3820 Restricted for Federal and State Programs	284,328
3850 Restricted for Debt Service	522,796
3870 Restricted for Campus Activities	80,180
3900 Unrestricted	8,748,810
3000 Total Net Position	\$ 24,468,206

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

GAINESVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2013

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	6
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 13,770,516	\$ 61,866	\$ 2,888,499	\$ (10,820,151)
12 Instructional Resources and Media Services	493,705	-	24,024	(469,681)
13 Curriculum and Staff Development	384,149	-	195,965	(188,184)
21 Instructional Leadership	404,718	-	27,112	(377,606)
23 School Leadership	1,531,271	-	126,225	(1,405,046)
31 Guidance, Counseling and Evaluation Services	469,338	-	78,523	(390,815)
32 Social Work Services	114,864	-	6,539	(108,325)
33 Health Services	263,291	-	18,477	(244,814)
34 Student (Pupil) Transportation	666,674	-	22,870	(643,804)
35 Food Services	2,127,145	368,451	1,892,107	133,413
36 Extracurricular Activities	983,250	57,513	18,113	(907,624)
41 General Administration	810,452	-	26,652	(783,800)
51 Facilities Maintenance and Operations	2,383,310	63,141	56,769	(2,263,400)
52 Security and Monitoring Services	10,067	-	49	(10,018)
53 Data Processing Services	69,473	-	-	(69,473)
72 Debt Service - Interest on Long Term Debt	1,493,292	-	-	(1,493,292)
73 Debt Service - Bond Issuance Cost and Fees	73,030	-	-	(73,030)
99 Other Intergovernmental Charges	184,282	-	-	(184,282)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 26,232,827	\$ 550,971	\$ 5,381,924	(20,299,932)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	9,779,781
DT	Property Taxes, Levied for Debt Service	2,516,170
GC	Grants and Contributions not Restricted	11,511,964
IE	Investment Earnings	49,274
MI	Miscellaneous Local and Intermediate Revenue	3,533
TR	Total General Revenues	23,860,722
CN	Change in Net Position	3,560,790
NB	Net Position - Beginning	21,265,624
PA	Prior Period Adjustment	(358,208)
NE	Net Position--Ending	\$ 24,468,206

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

GAINESVILLE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2013

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 7,019,628	\$ 654,426	\$ 387,510	\$ 8,061,564
1220 Property Taxes - Delinquent	412,953	90,742	-	503,695
1230 Allowance for Uncollectible Taxes (Credit)	(41,295)	(9,074)	-	(50,369)
1240 Receivables from Other Governments	1,927,234	5,969	168,674	2,101,877
1260 Due from Other Funds	79,290	-	-	79,290
1290 Other Receivables	26,182	6,722	-	32,904
1300 Inventories	39,695	-	-	39,695
1000 Total Assets	<u>\$ 9,463,687</u>	<u>\$ 748,785</u>	<u>\$ 556,184</u>	<u>\$ 10,768,656</u>
LIABILITIES				
2110 Accounts Payable	\$ 285,299	\$ -	\$ 6,285	\$ 291,584
2140 Interest Payable - Current	-	60,992	-	60,992
2160 Accrued Wages Payable	441,467	-	92,464	533,931
2170 Due to Other Funds	-	-	78,716	78,716
2180 Due to Other Governments	-	83,247	-	83,247
2200 Accrued Expenditures	8,401	-	8,381	16,782
2000 Total Liabilities	<u>735,167</u>	<u>144,239</u>	<u>185,846</u>	<u>1,065,252</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	371,658	81,667	-	453,325
2600 Total Deferred Inflows of Resources	<u>371,658</u>	<u>81,667</u>	<u>-</u>	<u>453,325</u>
FUND BALANCES				
Nonspendable Fund Balance:				
3410 Inventories	39,695	-	-	39,695
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	284,328	284,328
3480 Retirement of Long-Term Debt	-	522,879	-	522,879
Committed Fund Balance:				
3510 Construction	1,164,851	-	-	1,164,851
3545 Other Committed Fund Balance	-	-	80,180	80,180
3600 Unassigned Fund Balance	7,152,316	-	5,830	7,158,146
3000 Total Fund Balances	<u>8,356,862</u>	<u>522,879</u>	<u>370,338</u>	<u>9,250,079</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 9,463,687</u>	<u>\$ 748,785</u>	<u>\$ 556,184</u>	<u>\$ 10,768,656</u>

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

GAINESVILLE INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET POSITION
 AUGUST 31, 2013

Total Fund Balances - Governmental Funds	\$	9,250,079
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 \$76,393,119 and the accumulated depreciation was \$25,834,231. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.		15,753,372
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2013 capital outlays and debt principal payments is to increase (decrease) net position.		2,847,439
3 The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(1,727,463)
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 unavailable revenue from property taxes as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		(1,655,221)
19 Net Position of Governmental Activities	\$	24,468,206

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

GAINESVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes		10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 10,030,867	\$ 2,517,516	\$ 386,616	\$ 12,934,999
5800	State Program Revenues	12,272,489	62,937	240,117	12,575,543
5900	Federal Program Revenues	332,649	-	3,968,016	4,300,665
5020	Total Revenues	<u>22,636,005</u>	<u>2,580,453</u>	<u>4,594,749</u>	<u>29,811,207</u>
EXPENDITURES:					
Current:					
0011	Instruction	10,543,183	-	2,032,576	12,575,759
0012	Instructional Resources and Media Services	477,322	-	1,604	478,926
0013	Curriculum and Instructional Staff Development	194,427	-	189,722	384,149
0021	Instructional Leadership	394,853	-	9,865	404,718
0023	School Leadership	1,427,195	-	89,075	1,516,270
0031	Guidance, Counseling and Evaluation Services	400,391	-	58,469	458,860
0032	Social Work Services	140,406	-	-	140,406
0033	Health Services	245,768	-	7,414	253,182
0034	Student (Pupil) Transportation	616,014	-	-	616,014
0035	Food Services	-	-	2,062,366	2,062,366
0036	Extracurricular Activities	798,763	-	-	798,763
0041	General Administration	784,593	-	4,759	789,352
0051	Facilities Maintenance and Operations	2,457,672	-	-	2,457,672
0052	Security and Monitoring Services	10,067	-	-	10,067
0053	Data Processing Services	69,473	-	-	69,473
Debt Service:					
0071	Principal on Long Term Debt	43,544	820,000	-	863,544
0072	Interest on Long Term Debt	35,883	1,378,919	-	1,414,802
0073	Bond Issuance Cost and Fees	-	95,723	-	95,723
Capital Outlay:					
0081	Facilities Acquisition and Construction	1,722,678	-	-	1,722,678
Intergovernmental:					
0099	Other Intergovernmental Charges	184,282	-	-	184,282
6030	Total Expenditures	<u>20,546,514</u>	<u>2,294,642</u>	<u>4,455,850</u>	<u>27,297,006</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,089,491</u>	<u>285,811</u>	<u>138,899</u>	<u>2,514,201</u>
OTHER FINANCING SOURCES (USES):					
7901	Refunding Bonds Issued	-	7,135,000	-	7,135,000
7914	Non-Current Loans	1,486,979	-	-	1,486,979
7916	Premium or Discount on Issuance of Bonds	-	1,025,211	-	1,025,211
8940	Payment to Bond Refunding Escrow Agent (Use)	-	(8,196,057)	-	(8,196,057)
7080	Total Other Financing Sources (Uses)	<u>1,486,979</u>	<u>(35,846)</u>	<u>-</u>	<u>1,451,133</u>
1200	Net Change in Fund Balances	3,576,470	249,965	138,899	3,965,334
0100	Fund Balance - September 1 (Beginning)	<u>4,780,392</u>	<u>272,914</u>	<u>231,439</u>	<u>5,284,745</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 8,356,862</u>	<u>\$ 522,879</u>	<u>\$ 370,338</u>	<u>\$ 9,250,079</u>

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

GAINESVILLE INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2013

Total Net Change in Fund Balances - Governmental Funds	\$	3,965,334
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2013 capital outlays and debt principal payments is to increase (decrease) net position.		2,847,439
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(1,727,463)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		(1,524,520)
Change in Net Position of Governmental Activities	\$	<u>3,560,790</u>

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

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

EXHIBIT E-1

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 55,398
Total Assets	<u>\$ 55,398</u>
LIABILITIES	
Payroll Deductions and Withholdings Payable	\$ (574)
Due to Other Funds	574
Due to Student Groups	55,398
Total Liabilities	<u>\$ 55,398</u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The Board is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the GASB in its Statement No. 14, *The Reporting Entity*, as amended by GASB 39 *Determining Whether Certain Organizations are Component Units* and GASB 61 *the Financial Reporting Entity: Omnibus*. There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by tax revenues, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support. The District has no *business-type activities*.

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 "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 revenue is not program revenue, it is general revenue used to support all of the District's functions. Taxes are always general revenues.

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 Position 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 Position. All interfund transactions between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

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

C. 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*. Revenues are recorded when earned and expenses are recorded when a liability

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

is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available (GASB 2300.106a(5) and 1600.108), and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which are recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable, available financial resources. The District considers all revenues available if they are collectible within 60 days after year-end.

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*; when they are both measurable and available. The District considers these revenues "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

The Fiduciary Funds are accounted for on a flow of *economic resources measurement focus* and utilize the *accrual basis of accounting*. With this measurement focus, all assets and all liabilities associated with the operating of these funds are included on the fund Statement of Net Position. The total net position is segregated into: 1) invested in capital assets net of related debt, 2) restricted, and 3) unrestricted. This basis of accounting recognized revenues in the accounting period in which they are earned and become measurable and expenses in the period in which they are incurred and become measurable.

D. FUND ACCOUNTING

The District's accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, equity, revenues, and expenditures or expense. The District reports the following major governmental funds:

- The **General Fund** is the District's primary operating fund. It accounts for all financial resources, except those that are required to be accounted for in another fund. Major revenue sources include local property taxes and state funding under the Foundation School Program. Expenditures include all costs associated with the daily operations of the District except for specific programs funded by the federal or state government, food service, debt service, and capital projects.
- The **Debt Service Fund** accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the District reports the following fund types:

Governmental Funds:

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

- **Special Revenue Funds** account for resources restricted to, or designated for, specific purposes by the District or a grantor. Most Federal and some State financial assistance are accounted for in Special Revenue Funds. Sometimes, unused balances must be returned to the grantor at the close of specified project periods.

Fiduciary Funds:

- **Agency Funds** account for resources held by the District for others in a custodial capacity. The District's Agency Funds consist of various school activity funds.

E. OTHER ACCOUNTING POLICIES

1. **Cash and cash equivalents** – The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and highly liquid investments, which are investments with original maturities of three months or less from date of acquisition.
2. **Inventories** – The District reports inventories of supplies at weighted average cost including consumable custodial, maintenance, instruction, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.
3. **Long-term debt** – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts are capitalized and amortized over the life of the bonds using the straight-line method, which is not significantly different from the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, long-term liabilities are not recorded in the governmental funds as the payment of the obligations will not be made by current financial resources. Governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

4. **Compensated absences** – 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 government. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.
5. **Capital assets** – Capital assets, which include land, buildings, building improvements, and furniture and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

improvements are capitalized as projects are constructed. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

Capital assets of the District are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Buildings	39
Building Improvements	39
Infrastructure	50
Vehicles	5-7
Office Equipment	3-10
Computer Equipment	3-5

The District has no restrictions on capital assets.

6. **Fund equity** – The School has adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:
- **Nonspendable** – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
 - **Restricted** – Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws of regulations of other governments.
 - **Committed** – Amounts that can be used only for specific purposes determined by a formal action by Board of Trustees policy or resolution. This includes the budget reserve account.
 - **Assigned** – Amounts that are designated by the District for a specific purpose but are not spendable until a budget ordinance is passed by the Board of Trustees.
 - **Unassigned** – All amounts not included in other spendable classifications.

As discussed below, restricted funds are used first as appropriate. Assigned Funds are reduced to the extent that expenditure authority has been budgeted by the Board of Trustees or the assignment has been changed by the District. Decreases to fund balance first reduce Unassigned Fund Balance; in the event that Unassigned Fund Balance becomes zero, then Assigned and Committed Fund Balances are used in that order. The details of fund balances are included in the Governmental Funds Balance Sheet, Exhibit C-1.

7. **Net position** – When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first, unless unrestricted assets will have to be returned because they were not used.
8. **Data control codes** – The data control codes refer to the account code structure prescribed by TEA in the *FASRG*. 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.
9. The District is exposed to various risks of loss related torts, theft, damage or destruction of assets, error and omissions, injuries to employees, and natural disasters. During fiscal year 2013, the District purchased commercial insurance to cover general liabilities. There were no

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

significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage.

10. Adoption of New Accounting Standards

The District adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflows of Resources, and Net Position*, in the current year. This statement provides guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in a statement of financial position, and related disclosures. Deferred outflows of resources are defined as a consumption of Net Position by a government that is applicable to a future reporting period and deferred inflows of resources are defined as an acquisition of Net Position by a government that is applicable to a future reporting period. Net position is defined as the residual of all other elements presented in statement of financial position, being measured as the difference between (a) assets and deferred outflows or resources and (b) liabilities and deferred inflows of resources.

The District also adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* in the current year. This statement establishes accounting and financial reporting that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets or liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows or resource and deferred inflows or resources, such as changes in the determination of the major fund calculations and limiting the use of the term "deferred" in financial statement presentations.

As a result of the adoption of these new accounting standards, certain restatements to the balances for the government-wide financial statements as of August 31, 2012 are required. The following schedule summarizes these restatements:

	Originally Reported	Remove Bond Issuance Costs	Reclassify Deferred Loss on Refunding	Restated
Assets	\$ 57,520,460	\$ (358,208)	\$ -	\$ 57,162,252
Deferred Outflows of Resources	-	-	189,241	189,241
Total Assets & Deferred Outflows of Resources	<u>\$ 57,520,460</u>	<u>\$ (358,208)</u>	<u>\$ 189,241</u>	<u>\$ 57,351,493</u>
Liabilities	\$ 36,254,836	\$ -	\$ 189,241	\$ 36,444,077
Net Position	21,265,624	(358,208)	-	20,907,416
Total Liabilities and Net Position	<u>\$ 57,520,460</u>	<u>\$ (358,208)</u>	<u>\$ 189,241</u>	<u>\$ 57,351,493</u>
Revenues	\$ 26,846,875	\$ -	\$ -	\$ 26,846,875
Expenses	25,742,669	(18,826)	-	25,723,843
Change in Net Position	1,104,206	18,826	-	1,123,032
Net Position-Beginning of Year	20,161,418	(377,034)	-	19,784,384
Net Position-End of Year	<u>\$ 21,265,624</u>	<u>\$ (358,208)</u>	<u>\$ -</u>	<u>\$ 20,907,416</u>

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the Net Position for governmental activities as reported in the

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

government-wide statement of Net Position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets at the Beginning of the Year</u>	Accumulated		Net Value	Change in Net Position
	Historic Cost	Depreciation	9/1/2012	
Land	\$ 2,021,069	\$ -	\$ 2,021,069	
Buildings & Improvements	70,572,174	22,793,122	47,779,052	
Furniture & Equipment	3,799,876	3,041,109	758,767	
Construction in Progress	-	-	-	
	<u>\$ 76,393,119</u>	<u>\$ 25,834,231</u>	<u>\$ 50,558,888</u>	\$ 50,558,888

<u>Long-term Liabilities at the Beginning of the Year:</u>	Payable 9/1/2012	
Bonds Payable	\$ 34,085,000	
Maintenance Tax Notes Payable	527,000	
Capital Lease Payable	193,516	
	<u>\$ 34,805,516</u>	<u>(34,805,516)</u>
Net Adjustment to Net Position		<u>\$ 15,753,372</u>

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

Exhibits C-2 and C-4 provide reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in Net Position. The details of this adjustment are as follows:

	Amount	Adjustments to Net Position	Adjustments to Changes in Net Position
<u>Current Year Capital Outlay</u>			
Land	\$ -		
Building & Improvements	1,752,678		
Furniture & Equipment	231,217		
Total Capital Outlay	<u>\$ 1,983,895</u>	\$ 1,983,895	\$ 1,983,895
<u>Debt Principal Payments</u>			
Bonds and Tax Notes Principal	\$ 820,000		
Capital Lease Payments	43,544		
Total Debt Principal Payments	<u>863,544</u>	<u>863,544</u>	<u>863,544</u>
Total Adjustment to Net Position		<u>\$ 2,847,439</u>	<u>\$ 2,847,439</u>

Other elements of the reconciliation on Exhibits C-2 and C-4 are described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

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

	Amount	Adjustments to Net Position	Adjustments to Changes in Net Position
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	\$ 183,761		\$ (183,761)
Uncollected Taxes (Assumed Collectible)			
from Current Year Levy	166,171	\$ 166,171	166,171
Uncollected Taxes (Assumed Collectible)			
from Prior Year Levy	287,155	287,155	-
<u>Other Adjustments</u>			
Disposal of Fixed Assets	-	-	-
New Debt	1,486,979	(1,486,979)	(1,486,979)
Unamortized Premium/Discount on Debt			
Beginning Balance	718,415	(718,415)	-
Current Year Amortization	35,308	35,308	35,308
Record premium/discount on debt issuance	(1,100,307)	(1,100,307)	(1,100,307)
Loss on Early Extinguishment of Debt			
Beginning Balance	189,241	189,241	-
Current Year Amortization	12,616	(12,616)	(12,616)
Record loss on early exting of debt for debt issuance	1,061,057	1,061,057	1,061,057
Record Accretion on Capital Appreciation Bonds	8,546	(8,546)	(8,546)
Accrued Interest from Prior Year	72,443	-	72,443
Accrued Interest from Current Year	67,290	(67,290)	(67,290)
Total Adjustment to Net Position		<u>\$ (1,655,221)</u>	<u>\$ (1,524,520)</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board adopts an "appropriated budget" on a basis consistent for GAAP for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted original and final amended budgeted revenues and expenditures compared to actual revenues and expenditures for each of these funds. The General Fund Budget report appears in Exhibit G-1 and the other two reports are in Exhibit J-3 and J-4.

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

1. Prior to August 20th, the District prepares a budget for the next succeeding fiscal year beginning September 1st. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is called for the purpose of adopting the proposed budget. At least ten days, but not more than 30 days public notice of the meeting is required.
3. Prior to September 1st, the Board legally enacts the budget through passage of a resolution. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year, The significant adjustments were as follows:

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	Amendment
Baseball Field & Stadium Improvements	\$ 810,000
Cargo Van for Food Service	19,000
Additional Food Costs	111,000

4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

	Fund Balance
<hr/>	
Appropriated Budget Funds	
National Breakfast & Lunch Program	\$ 284,328
Nonappropriated Budget Funds	
State Textbook Fund	5,830
Campus Activity Funds	80,180

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS
None

C. DEFICIT FUND EQUITY

There are no deficit fund balances in the current year.

IV. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

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

Cash Deposits

At August 31, 2013, the carrying amount of the District's cash and cash equivalents (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$8,116,962 and the bank balance was \$8,458,736. The District's cash deposits at August 31, 2013 were entirely covered by FDIC insurance and by pledged collateral held by the District's agent bank in the District's name.

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

- | | |
|---|---------------|
| a. Depository: First State Bank | |
| b. The highest combined balances of cash, savings, and time deposits accounts occurred during the month of February 2013: | \$ 15,789,526 |
| c. The market value of securities pledged as of the date of the highest combined balance: | \$ 17,481,856 |
| d. The total amount of FDIC coverage at the time of the highest combined balance: | \$ 500,000 |

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District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. The district was in compliance with this law at year end and therefore had no custodial credit risk for deposits.

Foreign Currency Risk The District does not make investments that have foreign currency risk.

District Policies and Legal and Contractual Provisions Governing Investments
Compliance with the Public Funds Investment Act

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity 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 entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, 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. Gainesville Independent School District is in compliance with the requirements of the Act and with local policies.

At August 31, 2013, the District had no investments.

Additional policies and contractual provisions governing deposits and investments for Gainesville Independent School District are specified below:

Credit Risk To limit the risk that an issuer or other counterparty to an investments will not fulfill its obligations the District limits investments in: obligations of the United States or its agencies and instrumentalities; direct obligations of the state of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; and other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the state of Texas, the United States, or their respective agencies and instrumentalities and obligations of state, agencies, counties, cities, and other political subdivision of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent. Additionally, the District authorized investments in: certificates of deposit; fully collateralized repurchase agreements; certain securities lending programs; certain bankers acceptances; certain commercial paper; certain no-load market mutual funds; certain no-load mutual funds; guaranteed investment contracts; and public funds investment pools.

Custodial Credit Risk for Investments To limit the risk that in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District require counterparties to register the securities in the name of the District and had them over to the district or its designated agent. This includes securities in securities lending transactions. All of the securities are in the District's name and held by the District or its agent.

Concentration of Credit Risk To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District shall diversify in terms of investment instruments, maturity scheduling, and

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financial institutions to reduce risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer.

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires any internally created pool fund group to have a maximum dollar weighted maturity of 180 days. The maximum allowable stated maturity of any other individual investment owned by the District shall not exceed one year from time of purchase. The Board may specifically authorize a longer maturity for a given investment, within legal limits.

Foreign Currency Risk for Investments The District does not make investments that have foreign currency risk.

B. 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 upon 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 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

Property taxes receivable at year-end was as follows:

Property Taxes Receivable	\$	503,695
Allowance for Uncollectible Amounts		(50,369)
Net Property Taxes Receivable		\$ 453,326

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

C. INTERFUND BALANCES AND TRANSFERS

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

<u>Due To General Fund From:</u>	<u>Amount</u>	<u>Purpose</u>
Nonmajor Funds:		
Head Start	\$ 54,957	Grant funds expended, not received at year-end
SSA IDEA, Part B Formula	19,778	Grant funds expended, not received at year-end
Student Success Initiative	1,384	Grant funds expended, not received at year-end
State Textbook Fund	2,597	Grant funds expended, not received at year-end
Agency Fund	574	Other reimbursements
Total Due To General Fund	\$ 79,290	

There were no interfund transfers for the year ended August 31, 2013.

D. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2013 were as follows:

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	Governmental Funds			Total Receivables
	General Fund	Debt Service	Nonmajor Funds	
Property Taxes	\$ 412,953	\$ 90,742	\$ -	\$ 503,695
Less Allowance for Uncollectible	(41,295)	(9,074)	-	(50,369)
Other Governments	1,927,234	5,969	168,674	2,101,877
Other Funds	79,290	-	-	79,290
Other Receivables	26,182	6,722	-	32,904
	<u>\$ 2,404,364</u>	<u>\$ 94,359</u>	<u>\$ 168,674</u>	<u>\$ 2,667,397</u>
Amounts Not Expected to be Collected During Subsequent Year (Included Above):				
Property Taxes	<u>\$ 382,354</u>	<u>\$ 75,242</u>	<u>\$ -</u>	<u>\$ 457,596</u>

Payables at August 31, 2013 were as follows:

	Governmental Funds			Fiduciary Fund	Total Payables
	General Fund	Debt Serv Fund	Nonmajor Funds	Agency Fund	
Interest Payable	\$ -	\$ 60,992	\$ -	\$ -	\$ 60,992
Accounts Payable	285,299	-	6,285	-	291,584
Salaries and Benefits	449,868	-	100,845	(574)	550,139
Other Governments	-	83,247	-	-	83,247
Other Funds	-	-	78,716	574	79,290
Other Payable	-	-	-	55,398	55,398
	<u>\$ 735,167</u>	<u>\$ 144,239</u>	<u>\$ 185,846</u>	<u>\$ 55,398</u>	<u>\$ 1,120,650</u>

E. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2013, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as *Due from Other Governments*.

	General Fund	Debt Service	Nonmajor Funds	Totals
	Local Governments	\$ -	\$ -	\$ -
State Entitlements	1,927,234	5,969	9,811	1,943,014
Federal Grants	-	-	158,863	158,863
Totals	<u>\$ 1,927,234</u>	<u>\$ 5,969</u>	<u>\$ 168,674</u>	<u>\$ 2,101,877</u>

F. CAPITAL ASSET ACTIVITY

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

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	Balance 9/1/2012	Increases	Reclassifications/ Reductions	Balance 8/31/2013
Governmental Activities				
<u>Capital Assets Not Being Depreciated:</u>				
Land	\$ 2,021,069	\$ -	\$ -	\$ 2,021,069
Construction in Progress	-	-	-	-
<u>Capital Assets Being Depreciated:</u>				
Buildings & Improvements	70,572,174	1,752,678	-	72,324,852
Furniture & Equipment	3,799,876	231,217	-	4,031,093
	<u>74,372,050</u>	<u>1,983,895</u>	<u>-</u>	<u>76,355,945</u>
Less Accumulated Depreciation				
Buildings & Improvements	22,793,122	1,415,660	-	24,208,782
Furniture & Equipment	3,041,109	311,803	-	3,352,912
	<u>25,834,231</u>	<u>1,727,463</u>	<u>-</u>	<u>27,561,694</u>
Net Capital Assets				
Being Depreciated	48,537,819	256,432	-	48,794,251
Net Capital Assets	<u>\$ 50,558,888</u>	<u>\$ 256,432</u>	<u>\$ -</u>	<u>\$ 50,815,320</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 1,266,257
Instructional Resources and Media Services	14,779
School Leadership	15,001
Guidance, Counseling and Evaluation Services	10,478
Health Services	10,109
Student Transportation	112,660
Food Services	83,779
Cocurricular/Extracurricular Activities	184,487
General Administration	21,100
Plant Maintenance	8,813
Total Depreciation Expense	<u>\$ 1,727,463</u>

G. LONG-TERM DEBT

A summary of changes in general long-term debt for the year ended August 31, 2013 is as follows:

	Balance 9/1/2012	Additions	Retirements	Balance 8/31/2013	Due Within One Year
Bonds Payable-					
Carrying Value	\$ 33,980,000	\$ 7,135,000	\$ 7,850,000	\$ 33,265,000	\$ 935,000
Unamortized Premium	823,126	1,025,211	140,019	1,708,318	30,927
Total Bonds Payable	34,803,126	8,160,211	7,990,019	34,973,318	965,927
Notes Payable	527,000	1,486,979	-	2,013,979	99,000
Capital Leases Payable	193,517	-	43,544	149,973	35,433
Accreted Interest Payable	75,096	8,546	-	83,642	21,291
Totals	<u>\$ 35,598,739</u>	<u>\$ 9,655,736</u>	<u>\$ 8,033,563</u>	<u>\$ 37,220,912</u>	<u>\$ 1,121,651</u>

Current requirements for principal and interest expenditures for bonds payable and accreted interest payable are accounted for in the Debt Service Fund. The current requirements for principal and interest for the notes

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payable are accounted for in the General Fund. Total interest cost incurred by the District during the year ended August 31, 2013 was \$1,493,292 this entire amount was charged to expense in the statement of activities.

The following is a summary of the District's bonds and notes outstanding as of August 31, 2013:

Issue	Interest Rates	Final Maturity	Original Issue Amount	Amounts Outstanding 9/1/2012	Issued	Retired/Refunded	Amounts Outstanding 8/31/2013
Bonds:							
Series 2004, Refunding	3%-4.55%	2027	4,670,000	\$ 4,370,000	\$ -	\$ -	\$ 4,370,000
Series 2006	4%-4.5%	2033	29,500,000	27,045,000	-	(7,610,000)	19,435,000
Series 2008, Refunding	1.69%	2021	2,610,000	2,565,000	-	(240,000)	2,325,000
Series 2013, Refunding	3%-3.5%	2036	7,135,000	-	7,135,000	-	7,135,000
Total Bonds Payable				<u>33,980,000</u>	<u>7,135,000</u>	<u>(7,850,000)</u>	<u>33,265,000</u>
Notes Payable:							
Maintenance Tax Notes, 2007	4.50%	2022	1,770,000	527,000	-	-	527,000
Maintenance Tax Notes, 2013	.42%-3.2%	2028	1,486,979	-	1,486,979	-	1,486,979
Total Notes Payable				<u>527,000</u>	<u>1,486,979</u>	<u>-</u>	<u>2,013,979</u>
Capital Leases:							
Municipal Services Group	3.78%	2017	256,446	184,115	-	(34,142)	149,973
Bank of America	5.541%	2013	165,420	9,402	-	(9,402)	-
Total Capital Leases				<u>193,517</u>	<u>-</u>	<u>(43,544)</u>	<u>149,973</u>
Total				<u>\$ 34,700,517</u>	<u>\$ 8,621,979</u>	<u>\$ (7,893,544)</u>	<u>\$ 35,428,952</u>

Debt service requirements for bonds and tax notes are as follows:

Year Ended August 31,	Principal	Interest	Total
2014	1,069,433	1,473,247	2,542,680
2015	1,070,772	1,472,718	2,543,490
2016	1,087,162	1,465,744	2,552,906
2017	1,108,606	1,445,957	2,554,563
2018	1,109,000	1,419,171	2,528,171
2019-2023	6,737,000	6,394,114	13,131,114
2024-2028	8,351,979	4,155,237	12,507,216
2029-2033	9,460,000	2,016,089	11,476,089
2034-2038	5,435,000	263,101	5,698,101
Total	<u>\$ 35,428,952</u>	<u>\$ 20,105,378</u>	<u>\$ 55,534,330</u>

There are a number of limitations and restrictions contained in the general obligation bond indenture and the tax note indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2013.

Accreted Interest Payable

A portion of the 2013 Refunding Bond and the 2004 Bond consisted of capital appreciation bonds (CABS). These bonds are zero-coupon bonds with deep discounts. The difference between the initial price of the bonds plus the premium on the CABS and the maturity value represents interest. This interest is accreted over the term of the bonds and is recorded as a liability in the District's financial statements. The following schedule summarizes the changes in accreted interest payable during the year ended August 31, 2013.

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	Balance 9/1/2012	Additions	Retired	Balance 8/31/2013
Accreted Interest Payable	\$ 75,096	\$ 8,546	\$ -	\$ 83,642

Defeased Debt

In 2013, the Series 2013 bonds provided funds to partially refund the Series 2006 bonds. The 2006 bonds had an outstanding balance of \$26,570,000 at the time of the refunding. A total of \$7,135,000 of the 2006 Series was retired by the refunding. A total of \$8,196,057 was deposited into an irrevocable trust with an escrow agent to provide for all future debt payments on the refunded portion of the Series 2006 Bonds. This amount included a contribution of \$132,522 from the District. This portion of the Series 2006 bonds is considered fully defeased and the liability for these bonds has been removed from the District's financial statements. This advanced refunding reduced the District's debt service requirements by approximately \$2,390,256. The net present value of this savings is \$1,285,264. This refunding resulted in an accounting loss (difference between the book value of the old debt and the amount required to retire the debt) of \$1,061,057. In accordance with accounting standards, the accounting loss is not reported on the statement of activities but is recorded as a deferred outflow of resources on the statement of net position to be amortized over the shorter of the life of the defeased bonds or the new bonds.

As of August 31, 2013 the following defeased bonds remain outstanding:

	Amount Outstanding 8/31/2013
Series 1995	1,590,000
Series 1997	2,645,000
Series 1998	2,325,000
Series 2006	7,135,000

H. COMMITMENTS UNDER OPERATING LEASES

Operating Leases

Commitments under operating (noncapitalized) lease agreements for equipment provide for minimum future rental payments. Lease expense for operating lease agreements for the current year is \$19,909. Minimum future annual requirements are as follows:

Year Ended August 31,	Amount
2014	41,256
2015	33,580
2016	28,848
2017	28,848
2018	24,040
Thereafter	-
Total	\$ 156,572

I. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

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	Governmental Funds			Totals
	General	Debt	Nonmajor	
	Fund	Service Fund	Funds	
Property Taxes	\$ 9,758,339	\$ 2,507,250	\$ -	\$ 12,265,589
Penalties and Interest				
On Property Taxes	38,949	9,003	-	47,952
Member Districts				
Contributions	-	-	-	-
Tuition & Fees	700	-	-	700
Investment Income	47,525	1,263	485	49,273
Rent	1,975	-	-	1,975
Food Sales	-	-	290,115	290,115
Co-curricular Student				
Activities	57,513	-	-	57,513
Insurance Recovery	3,534	-	-	3,534
Miscellaneous	122,332	-	96,016	218,348
	<u>\$ 10,030,867</u>	<u>\$ 2,517,516</u>	<u>\$ 386,616</u>	<u>\$ 12,934,999</u>

J. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

A State minimum personal leave program consisting of five days per year of personal leave, with no limit on accumulation and no restrictions on transfer among districts, is provided for District employees. All employees who are eligible for State personal leave also earn an additional five workdays of local sick leave per year. Local sick leave is cumulative subject to continuous employment with the District. The District has not recorded a liability for accumulated sick leave since the amount is not considered material.

Full-term employees (employees with 12-month appointments) are eligible for paid vacation leave. Vacation time is accrued as follows: one week after one year of employment and two weeks after three years of continuous employment. Unused vacation leave is not carried forward. The District has not recorded a liability for accumulated vacation since the amount is not considered material.

K. PENSION PLAN

Defined Benefit Pension Plan

Plan Description. The District contributes to the Teacher Retirement System of Texas (TRS), a cost sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS's unfunded actuarial liabilities

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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.

Contributions rates and contributions for fiscal years 2013-2011 are shown in the table below. These rates are set by the General Appropriations Act. In certain instances, the reporting district is required to make all or a portion of the state's and/or member's contribution and on the portion of the employee's salaries that exceeded the statutory minimum.

Year	Member		State		Statutory Minimum Amt
	Rate	Amount	Rate	Amount	Amount
2013	6.40%	1,029,535	6.40%	784,125	97,530
2012	6.40%	1,008,483	6.00%	847,672	85,173
2011	6.40%	1,100,736	6.64%	900,021	115,133

L. MEDICARE PART D

The Medicare Prescription Drug, Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments are shown on the table following.

	For the Years Ended August 31,		
	2013	2012	2011
TRS on Behalf Medicare Part D	\$ 54,938	\$ 35,040	\$ 44,558

M. SCHOOL DISTRICT RETIREE HEALTH PLAN

Plan Description. The District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The Teacher Retirement System of Texas issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us under the TRS Publications heading, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling the TRS Communications Department at 1-800-223-8778.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203 and 204 establish state, active employee and public school contributions respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payrolls set at 0.55% for fiscal years 2013, 2012 and 2011. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than .75% of the salary of each active employee of the public school. The amounts, which are equal to the required contribution, are reflected on the following table:

	For the Years Ended August 31		
	2013	2012	2011
State's Contributions	\$ 146,035	\$ 143,049	\$ 156,135
Employee Contributions	94,922	92,982	101,487
District Contributions	80,319	78,677	85,874

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N. HEALTH CARE COVERAGE

The District is a participating member in the Texas School Employees Uniform Group Health Coverage Program (TRS-Active Care). TRS-Active Care is a group health insurance program (the Plan) in which, by statute, all school districts with 500 or fewer employees are required to participate.

During the year ended August 31, 2013, the District paid premiums of \$292 per month per employee to the Plan (employees at their own option, may authorize payroll withholdings to pay premiums for dependents). "Employee" means a participating member of the Teacher Retirement System of Texas who is employed by a participating member.

O. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The District entered into a contract with Heartland Park and Recreation for \$810,810 to build a baseball complex. As of 8/31/2013, the District had spent \$230,655 on this project. The District also implemented an energy project during the current fiscal year. The contract with Entegral Solutions provides for the replacement of 4 HVAC units at the Administration building, replacement of 15 HVAC units at Lee campus, upgrade of lighting throughout the District and installation of a central system to manage energy with web access. The unpaid balance on this contract at year end was \$115,351.

P. RELATED ORGANIZATIONS

Related organizations represent organizations for which the District is responsible for appointing a voting majority of the board of the organization. These organizations represent separate non-governmental entities that are not controlled by nor are dependent upon the District. They also do not meet the criteria of financial accountability, consequently the financial information of related organizations are not included in the District's financial statements. The following organization is a related organization of the District.

The Gainesville ISD Education Foundation is a nonprofit 501(c)(3) organization funded by contributions received from the general public. The purpose of the organization is to generate and distribute resources to the District to enrich, maintain, and expend programs needed to meet the District's stated mission of excellence in education.

Q. PRIOR PERIOD ADJUSTMENT

In order to comply with GASB Statement No. 64, the District removed from the carrying amount of the bonds the deferred charge for refunding. The unamortized balance of bond issuance costs has been written off and recorded as a prior period adjustment. The changes to the prior year government wide financial statements are as follows:

	As Previously Reported	As Adjusted
Deferred Outflows of Resources:		
Deferred Charge for Refunding	\$ -	\$ 189,241
Capitalized Bond and Other Debt		
Issurance Costs	358,208	-
Noncurrent Liabilities Due in More		
Than one Year	34,574,188	34,763,429
Prior Period Adjustment		358,208

R. SUBSEQUENT EVENTS

The District's management has evaluated subsequent events though December 23, 2013, the date which the financial statements were available for issue.

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REQUIRED SUPPLEMENTARY INFORMATION

GAINESVILLE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2013

EXHIBIT G-1

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 9,323,413	\$ 9,342,182	\$ 10,030,867	\$ 688,686
5800	State Program Revenues	10,593,315	10,593,315	12,272,489	1,679,174
5900	Federal Program Revenues	76,773	94,743	332,649	237,906
5020	Total Revenues	19,993,501	20,030,240	22,636,005	2,605,766
EXPENDITURES:					
Current:					
0011	Instruction	10,986,775	10,852,489	10,543,183	309,306
0012	Instructional Resources and Media Services	479,877	490,377	477,322	13,055
0013	Curriculum and Instructional Staff Development	198,697	208,697	194,427	14,270
0021	Instructional Leadership	418,274	418,274	394,853	23,421
0023	School Leadership	1,450,044	1,469,314	1,427,195	42,119
0031	Guidance, Counseling and Evaluation Services	560,650	495,150	400,391	94,759
0032	Social Work Services	110,926	142,294	140,406	1,888
0033	Health Services	253,833	269,533	245,768	23,765
0034	Student (Pupil) Transportation	714,538	848,324	616,014	232,310
0036	Extracurricular Activities	852,044	851,544	798,763	52,781
0041	General Administration	828,164	828,164	784,593	43,571
0051	Facilities Maintenance and Operations	2,665,872	2,682,272	2,457,672	224,600
0052	Security and Monitoring Services	13,807	13,807	10,067	3,740
0053	Data Processing Services	75,000	75,000	69,473	5,527
Debt Service:					
0071	Principal on Long Term Debt	61,100	61,100	43,544	17,556
0072	Interest on Long Term Debt	38,900	38,900	35,883	3,017
Capital Outlay:					
0081	Facilities Acquisition and Construction	100,000	2,396,979	1,722,678	674,301
Intergovernmental:					
0099	Other Intergovernmental Charges	185,000	185,000	184,282	718
6030	Total Expenditures	19,993,501	22,327,218	20,546,514	1,780,704
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(2,296,979)	2,089,491	4,386,470
OTHER FINANCING SOURCES (USES):					
7914	Non-Current Loans	-	1,486,979	1,486,979	-
7080	Total Other Financing Sources (Uses)	-	1,486,979	1,486,979	-
1200	Net Change in Fund Balances	-	(810,000)	3,576,470	4,386,470
0100	Fund Balance - September 1 (Beginning)	4,780,392	4,780,392	4,780,392	-
3000	Fund Balance - August 31 (Ending)	\$ 4,780,392	\$ 3,970,393	\$ 8,356,862	\$ 4,386,470

COMBINING STATEMENTS

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

Data Control Codes	205 Head Start	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula
ASSETS			
1110 Cash and Cash Equivalents	\$ -	\$ 45,245	\$ -
1240 Receivables from Other Governments	67,670	-	42,932
1000 Total Assets	<u>\$ 67,670</u>	<u>\$ 45,245</u>	<u>\$ 42,932</u>
LIABILITIES			
2110 Accounts Payable	\$ -	\$ -	\$ -
2160 Accrued Wages Payable	11,595	41,227	21,120
2170 Due to Other Funds	54,957	-	19,778
2200 Accrued Expenditures	1,118	4,018	2,034
2000 Total Liabilities	<u>67,670</u>	<u>45,245</u>	<u>42,932</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
Committed Fund Balance:			
3545 Other Committed Fund Balance	-	-	-
3600 Unassigned Fund Balance	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 67,670</u>	<u>\$ 45,245</u>	<u>\$ 42,932</u>

EXHIBIT H-1 (Cont'd)

225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	242 Summer Feeding Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	270 ESEA VI, Pt B Rural & Low Income	289 Summer School LEP
\$ 652	\$ 249,903	\$ -	\$ -	\$ 9,103	\$ 2,427	\$ -	\$ -
-	48,261	-	-	-	-	-	-
<u>\$ 652</u>	<u>\$ 298,164</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,103</u>	<u>\$ 2,427</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ 6,285	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
594	7,417	-	-	8,300	2,211	-	-
-	-	-	-	-	-	-	-
58	134	-	-	803	216	-	-
<u>652</u>	<u>13,836</u>	<u>-</u>	<u>-</u>	<u>9,103</u>	<u>2,427</u>	<u>-</u>	<u>-</u>
-	284,328	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>284,328</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 652</u>	<u>\$ 298,164</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,103</u>	<u>\$ 2,427</u>	<u>\$ -</u>	<u>\$ -</u>

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

Data Control Codes	404 Student Success Initiative	410 State Textbook Fund	411 Technology Allotment	461 Campus Activity Funds
ASSETS				
1110	\$ -	\$ -	\$ -	\$ 80,180
1240	1,384	8,427	-	-
1000	<u>\$ 1,384</u>	<u>\$ 8,427</u>	<u>\$ -</u>	<u>\$ 80,180</u>
LIABILITIES				
2110	\$ -	\$ -	\$ -	\$ -
2160	-	-	-	-
2170	1,384	2,597	-	-
2200	-	-	-	-
2000	<u>1,384</u>	<u>2,597</u>	<u>-</u>	<u>-</u>
FUND BALANCES				
Restricted Fund Balance:				
3450	-	-	-	-
Committed Fund Balance:				
3545	-	-	-	80,180
3600	-	5,830	-	-
3000	<u>-</u>	<u>5,830</u>	<u>-</u>	<u>80,180</u>
4000	<u>\$ 1,384</u>	<u>\$ 8,427</u>	<u>\$ -</u>	<u>\$ 80,180</u>

499 GISD Education Fdn Grants	Total Nonmajor Governmental Funds
\$ -	\$ 387,510
-	168,674
<u>\$ -</u>	<u>\$ 556,184</u>
\$ -	6,285
-	92,464
-	78,716
-	8,381
<u>-</u>	<u>185,846</u>
-	284,328
-	80,180
-	5,830
<u>-</u>	<u>370,338</u>
<u>\$ -</u>	<u>\$ 556,184</u>

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

Data Control Codes	205 Head Start	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula
REVENUES:			
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-
5900 Federal Program Revenues	338,352	951,900	474,479
5020 Total Revenues	<u>338,352</u>	<u>951,900</u>	<u>474,479</u>
EXPENDITURES:			
Current:			
0011 Instruction	272,481	767,195	432,563
0012 Instructional Resources and Media Services	-	-	-
0013 Curriculum and Instructional Staff Development	-	174,840	4,047
0021 Instructional Leadership	-	9,865	-
0023 School Leadership	58,457	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	37,869
0033 Health Services	7,414	-	-
0035 Food Services	-	-	-
0041 General Administration	-	-	-
6030 Total Expenditures	<u>338,352</u>	<u>951,900</u>	<u>474,479</u>
1200 Net Change in Fund Balance	-	-	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	242 Summer Feeding Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	270 ESEA VI, Pt B Rural & Low Income	289 Summer School LEP
\$ -	\$ 290,549	\$ 51	\$ -	\$ -	\$ -	\$ -	\$ -
-	25,943	-	-	-	-	-	-
12,518	1,843,031	23,134	46,207	171,717	55,622	47,710	3,346
12,518	2,159,523	23,185	46,207	171,717	55,622	47,710	3,346
12,518	-	-	25,607	171,717	55,622	36,875	3,346
-	-	-	-	-	-	-	-
-	-	-	-	-	-	10,835	-
-	-	-	-	-	-	-	-
-	-	-	20,600	-	-	-	-
-	-	-	-	-	-	-	-
-	2,039,181	23,185	-	-	-	-	-
-	-	-	-	-	-	-	-
12,518	2,039,181	23,185	46,207	171,717	55,622	47,710	3,346
-	120,342	-	-	-	-	-	-
-	163,986	-	-	-	-	-	-
\$ -	\$ 284,328	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

Data Control Codes	404 Student Success Initiative	410 State Textbook Fund	411 Technology Allotment	461 Campus Activity Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ 78,336
5800 State Program Revenues	14,562	199,612	-	-
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	<u>14,562</u>	<u>199,612</u>	<u>-</u>	<u>78,336</u>
EXPENDITURES:				
Current:				
0011 Instruction	14,562	202,976	-	17,317
0012 Instructional Resources and Media Services	-	-	-	1,604
0013 Curriculum and Instructional Staff Development	-	-	-	-
0021 Instructional Leadership	-	-	-	-
0023 School Leadership	-	-	-	30,618
0031 Guidance, Counseling and Evaluation Services	-	-	-	-
0033 Health Services	-	-	-	-
0035 Food Services	-	-	-	-
0041 General Administration	-	-	-	4,759
6030 Total Expenditures	<u>14,562</u>	<u>202,976</u>	<u>-</u>	<u>54,298</u>
1200 Net Change in Fund Balance	-	(3,364)	-	24,038
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>9,194</u>	<u>-</u>	<u>56,142</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ 5,830</u>	<u>\$ -</u>	<u>\$ 80,180</u>

EXHIBIT H-2

499 GISD Education Fdn Grants	Total Nonmajor Governmental Funds
\$ 17,680	\$ 386,616
-	240,117
-	3,968,016
<u>17,680</u>	<u>4,594,749</u>
19,797	2,032,576
-	1,604
-	189,722
-	9,865
-	89,075
-	58,469
-	7,414
-	2,062,366
-	4,759
<u>19,797</u>	<u>4,455,850</u>
(2,117)	138,899
<u>2,117</u>	<u>231,439</u>
<u>\$ -</u>	<u>\$ 370,338</u>

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REQUIRED TEA SCHEDULES

GAINESVILLE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2013

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2004 and prior years	Various	Various	\$ 6,549,162,245
2005	1.500000	0.055000	621,241,674
2006	1.500000	0.055000	660,331,933
2007	1.370000	0.338300	712,209,875
2008	1.040000	0.245419	782,369,153
2009	1.040000	0.235320	877,062,375
2010	1.040000	0.235320	930,054,794
2011	1.040000	0.235320	881,992,781
2012	1.040000	0.294324	877,347,353
2013 (School year under audit)	1.040000	0.268780	935,160,563
1000 TOTALS			

(10) Beginning Balance 9/1/2012	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2013
\$ 59,399	\$ -	\$ 671	\$ 25	\$ (22,763)	\$ 35,940
15,660	-	369	14	(281)	14,996
16,198	-	499	18	326	16,007
24,843	-	1,259	311	27	23,300
25,563	-	2,937	693	(808)	21,125
37,603	-	13,690	3,098	7,938	28,753
59,014	-	12,324	2,788	(2,400)	41,502
100,035	-	34,485	7,803	(1,869)	55,878
184,923	-	60,909	17,237	(6,754)	100,023
-	12,230,030	9,551,490	2,459,955	(52,414)	166,171
<u>\$ 523,238</u>	<u>\$ 12,230,030</u>	<u>\$ 9,678,633</u>	<u>\$ 2,491,942</u>	<u>\$ (78,998)</u>	<u>\$ 503,695</u>

GAINESVILLE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2014-2015
 GENERAL AND SPECIAL REVENUE FUNDS
 AUGUST 31, 2013

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

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collections	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 225,197	\$ 365,519	\$ -	\$ -	\$ 590,716
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	13,682	-	2,200	-	-	15,882
6212	Audit Services	-	-	-	23,600	-	-	23,600
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	242,167	-	-	-	-	242,167
6214	Lobbying	-	-	-	-	-	-	-
621X	Other Professional Services	1,282	-	1,735	22,521	-	-	25,538
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	57,388	-	-	57,388
6240	Contr. Maint. and Repair	-	-	-	1,161	-	-	1,161
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	4,000	-	-	4,000
6290	Miscellaneous Contr.	-	-	-	3,188	-	-	3,188
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	482	-	6,548	12,405	-	-	19,435
6410	Travel, Subsistence, Stipends	1,162	-	843	6,998	-	-	9,003
6420	Ins. and Bonding Costs	12,006	-	-	-	-	-	12,006
6430	Election Costs	3,315	-	-	-	-	-	3,315
6490	Miscellaneous Operating	9,986	-	7,817	17,905	-	-	35,708
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 28,233	\$ 255,849	\$ 242,140	\$ 516,885	\$ -	\$ -	\$ 1,043,107

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 25,002,364

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10) \$	1,983,895
Total Debt & Lease(6500)	(11)	79,427
Plant Maintenance (Function 51, 6100-6400)	(12)	2,374,497
Food (Function 35, 6341 and 6499)	(13)	2,997
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		516,885

SubTotal:

4,957,701

Net Allowed Direct Cost

\$ 20,044,663

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15) \$	72,324,852
Historical Cost of Building over 50 years old	(16) \$	10,525,000
Amount of Federal Money in Building Cost (Net of #16)	(17) \$	-
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18) \$	4,031,093
Historical Cost of Furniture & Equipment over 16 years old	(19) \$	289,901
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20) \$	-

(8) NOTE A: \$69,473 in Function 53 expenditures are included in this report on administrative costs.

\$184,282 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

GAINESVILLE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 313,097	\$ 313,097	\$ 290,549	\$ (22,548)
5800	State Program Revenues	73,463	-	25,943	25,943
5900	Federal Program Revenues	1,599,663	1,673,126	1,843,031	169,905
5020	Total Revenues	1,986,223	1,986,223	2,159,523	173,300
EXPENDITURES:					
0035	Food Services	1,929,223	2,116,223	2,039,181	77,042
6030	Total Expenditures	1,929,223	2,116,223	2,039,181	77,042
1200	Net Change in Fund Balances	57,000	(130,000)	120,342	250,342
0100	Fund Balance - September 1 (Beginning)	163,986	163,986	163,986	-
3000	Fund Balance - August 31 (Ending)	\$ 220,986	\$ 33,986	\$ 284,328	\$ 250,342

GAINESVILLE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - DEBT SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2013

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 2,406,590	\$ 2,496,736	\$ 2,517,516	\$ 20,780
5800	State Program Revenues	-	6,451	62,937	56,486
5020	Total Revenues	2,406,590	2,503,187	2,580,453	77,266
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	820,000	820,000	820,000	-
0072	Interest on Long Term Debt	1,586,590	1,528,699	1,378,919	149,780
0073	Bond Issuance Cost and Fees	3,000	3,000	95,723	(92,723)
6030	Total Expenditures	2,409,590	2,351,699	2,294,642	57,057
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,000)	151,488	285,811	134,323
OTHER FINANCING SOURCES (USES):					
7901	Refunding Bonds Issued	-	-	7,135,000	7,135,000
7916	Premium or Discount on Issuance of Bonds	-	-	1,025,211	1,025,211
8940	Payment to Bond Refunding Escrow Agent	-	-	(8,196,057)	(8,196,057)
7080	Total Other Financing Sources (Uses)	-	-	(35,846)	(35,846)
1200	Net Change in Fund Balances	(3,000)	151,488	249,965	98,477
0100	Fund Balance - September 1 (Beginning)	272,914	272,914	272,914	-
3000	Fund Balance - August 31 (Ending)	\$ 269,914	\$ 424,402	\$ 522,879	\$ 98,477

FEDERAL AWARDS SECTION

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SCHALK & SMITH PC
CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL CORPORATION

Thomas E. Schalk, CPA
Judy Smith, CPA
Cynthia Muñoz, CPA

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
Gainesville Independent School District
800 South Morris
Gainesville, TX 76240

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gainesville Independent School District, (the "District") as of and for the year ended August 31, 2013, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 23, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 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.

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

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

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*.

Purpose of 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.

Schalk & Smith PC

Schalk & Smith P. C.
December 23, 2013

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

To the Board of Trustees
Gainesville Independent School District
800 South Morris Street
Gainesville, TX 76240

Report on Compliance for Each Major Federal Program

We have audited the compliance of the Gainesville Independent School District (the "District"), with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that could have a direct and material effect on each of 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 requirement 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 for each major program. However, our audit does not provide a legal determination of the District's compliance.

Opinion of Each Major Federal Program

In our opinion, the Gainesville 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.

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

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

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.



Schalk & Smith, P.C.
December 23, 2013

**GAINESVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2013**

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified opinion

Internal control over financial reporting:

- Material weakness identified No
- Significant deficiency identified that are not considered to be material weaknesses No
- Noncompliance material to financial statements noted No

Federal Awards

Internal control over major programs:

- Material weakness identified No
- Significant deficiency identified that are not considered to be material weaknesses None reported

Type of auditor's report issued on compliance for major programs: Unmodified Opinion

Any audit findings disclosed that are required to be reported in accordance with section 501(a) of Circular A-133 No

Major Federal Programs:

- Special Education Cluster CFDA #84.027; 84.173
- Title I, Part A CFDA #84.010A

Dollar threshold used to distinguish between type A and type B programs: \$300,000
Auditee qualified as low-risk auditee? Yes

Section II – Financial Statement Findings-NONE

Section III – Federal Award findings and Questioned Costs-NONE

GAINESVILLE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2013

N/A

GAINESVILLE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2013

(Prepared by the District's Administration)

N/A

GAINESVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2013

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
ENTER NAME OF DEPARTMENT			
<u>Direct Programs</u>			
Summer School LEP	FD289	Unknown	\$ 3,346
Total Direct Programs			\$ 3,346
TOTAL ENTER NAME OF DEPARTMENT			\$ 3,346
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	13610104049901104	\$ 951,900
*IDEA - Part B, Formula	84.027	136600010499016600	474,479
*IDEA - Part B, Preschool	84.173	136610010499016610	12,518
Total Special Education Cluster (IDEA)			486,997
Career and Technical - Basic Grant	84.048	13420006049901	46,207
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	13696001049901	47,710
Title III, Part A - English Language Acquisition	84.365A	13671001049901	55,622
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	13694501049901	171,717
Total Passed Through State Department of Education			\$ 1,760,153
TOTAL DEPARTMENT OF EDUCATION			\$ 1,760,153
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through State Department of Education</u>			
Head Start	93.600	06CH7011/12	\$ 64,777
Head Start	93.600	06CH7012/13	273,575
Total CFDA Number 93.600			338,352
Total Passed Through State Department of Education			\$ 338,352
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			\$ 338,352
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	2013IN109946	\$ 527,701
*National School Lunch Program - Cash Assistance	10.555	2013IN109946	1,219,744
*National School Lunch Prog. - Non-Cash Assistance	10.555	Unknown	95,586
Total CFDA Number 10.555			1,315,330
*Summer Feeding Program - Cash Assistance	10.559	Unknown	23,134
Total Child Nutrition Cluster			1,866,165
Total Passed Through the State Department of Agriculture			\$ 1,866,165
TOTAL DEPARTMENT OF AGRICULTURE			\$ 1,866,165
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,968,016

*Clustered Programs

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

1. For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified periods.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All federal grant funds were accounted for in a Special Revenue Funds, a component of the Governmental Fund types. Medicaid reimbursements (School Health and Related Services (SHARS) program for special education students) are recorded in the General Fund as Federal revenue but do not meet the definition of federal awards for purposes of preparing the schedule of federal awards.

The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become 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. Expenditures are generally recorded when a liability is incurred.

Federal grants 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 revenue until earned.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date, in accordance with provisions in OMB Circular A-133 Compliance Statement, Part 3, Section H – Period of Availability of Federal Funds.
4. Reconciliation of Federal Revenues in Exhibit C-2 to the Schedule of Expenditures of Federal Awards :

Federal Awards per Schedule of Expenditures of Federal Awards	\$ 3,968,016
Medicaid Reimbursements (SHARS)	<u>332,649</u>
Total Federal Program Revenues-Exhibit C-3	<u><u>\$ 4,300,665</u></u>

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OTHER COMMUNICATIONS

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SCHALK & SMITH PC
CERTIFIED PUBLIC ACCOUNTANTS

A PROFESSIONAL CORPORATION

Thomas E. Schalk, CPA
Judy Smith, CPA
Cynthia Muñoz, CPA

December 23 2013

To the Board of Trustees
Gainesville Independent School District
800 South Morris
Gainesville, TX 76240

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Gainesville Independent School District (the District) for the year ended August 31, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and OMB Circular A-133), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated October 17, 2013. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note I. to the financial statements. The District adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflow of Resources, Deferred Inflows or Resources, and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* during the current year. The application of existing policies was not changed during 2013. We noted no transactions entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

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 estimate affecting the governmental activities, the general fund and the debt service fund's financial statements was:

Management's estimate of the allowance for doubtful accounts is based on historical property tax collections. We evaluated the key factors and assumptions used to develop the allowance for doubtful accounts in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure(s) affecting the financial statements were:

There were no sensitive disclosures.

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 misstatements. 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 each opinion unit's 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 December 23, 2013.

Management Consultations with Other Independent Accountants

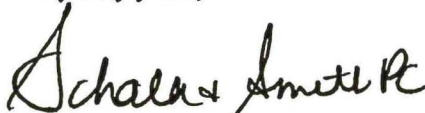
In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination 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 governmental unit'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 the Board of Trustees of Gainesville Independent School District and management of the District. It is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Schalk & Smith, PC
Certified Public Accountants