

**Dripping Springs
Independent School District**

Annual Financial Report

Year Ended June 30, 2013

Dripping Springs Independent School District

Annual Financial Report

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CERTIFICATE OF BOARD

Dripping Springs Independent School District
Name of School District

Hays
County

105904
County District Number

We, the undersigned, certify that the attached annual financial report of the above-named school district was reviewed and (check one) approved ___ disapproved for the year ended June 30, 2013, at a meeting of the Board of Trustees of such school district on the 18th day of Nov, 2013.

Shelly Rives
Signature of Board Secretary

B. C. S. J.
Signature of Board President

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

Financial Section

Independent Auditor's Report

To the Board of Trustees
Dripping Springs Independent School District
Dripping Springs, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Dripping Springs Independent School District (the "District"), as of and for the year ended June 30, 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

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

Auditor's Responsibility

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

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

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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, the business-type activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, in 2013 the District adopted the new accounting guidance contained in Governmental Accounting Standards Board (“GASB”) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Our opinion is not modified with respect to these matters.

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 Schedule – General Fund on pages 4 through 15 and page 50, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District’s basic financial statements. The Other Supplementary Information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133, and is also not a

required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare 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 information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Padgett, Stratemann + Co., LLP

Certified Public Accountants
Austin, Texas
November 5, 2013

Dripping Springs Independent School District

Management's Discussion and Analysis

June 30, 2013

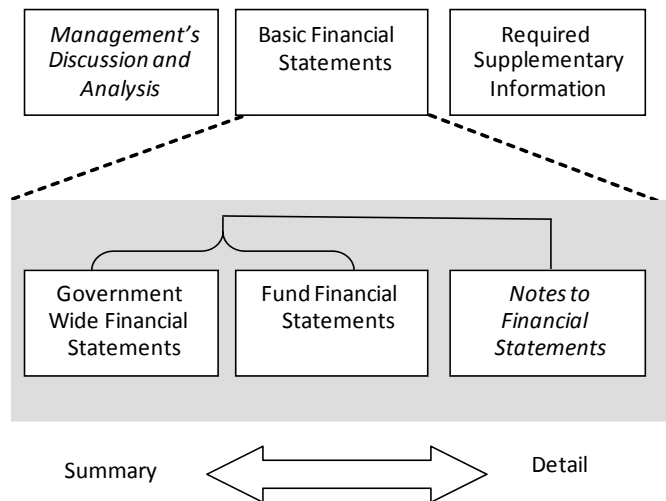
This section of the Dripping Springs Independent School District's (the "District") annual financial report presents our discussion and analysis of the District's financial performance during the 12-month period ended June 30, 2013. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent period by \$51,673,788 (*net position*). Of this amount, \$21,186,232 (*unrestricted net position*) may be used to meet the government's ongoing obligations.
- As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$31,268,775. Approximately 59% of this total amount, \$18,563,081, is available for spending at the government's discretion (*general fund unassigned fund balance*). The remainder of fund balance is nonspendable, restricted, or assigned to indicate it is not available for new spending because it has already been committed for various purposes, including capital projects, repayment of debt, food service, wastewater plant, and investment in inventories.
- In April 2013, the District issued \$15,500,000 of Unlimited Tax Refunding Bonds, Series 2013, in order to retire portions of the outstanding Unlimited Tax Refunding Bonds, Series 2003 and Series 2005.

Overview of the Financial Statements

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



Dripping Springs Independent School District

Management's Discussion and Analysis

June 30, 2013

(Continued)

Government-Wide Financial Statements

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

The *statement of net position* presents information on all of the District's assets and liabilities, 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 the District is improving or deteriorating.

The *statement of activities* presents information showing how the District's net position changed during the most recent 12-month period. 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*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused vacation leave.)

Both of the government-wide financial statements distinguish functions of the 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 District include instruction and instructional-related services, instructional and school leadership, support services – student (pupil), administrative support services, support services – nonstudent based, and ancillary services. The business-type activities of the District include the child development center and community education.

The government-wide financial statements can be found on pages immediately following this section as the first two pages of the Basic Financial Statements.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- *Governmental Funds* – *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Dripping Springs Independent School District

Management's Discussion and Analysis

June 30, 2013

(Continued)

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains 23 governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and debt service fund, which are considered to be major funds. Data from the other 21 governmental funds are combined into a single, aggregated presentation.

The financial statements for governmental funds can be found in the Basic Financial Statements on pages 18 and 20.

Compliance with the District's annual general fund operating budget for the 12 months ended June 30, 2013, is reported in the *Budgetary Comparison Schedule – General Fund* which is found in the Required Supplementary Information section. Compliance with operating budgets of the child nutrition fund and the debt service fund, which are required by the Texas Education Agency ("TEA") are reported in budgetary comparison schedules in the Other Supplementary Information section of the financial statements.

Proprietary Funds – The District maintains one type of proprietary fund. The *enterprise funds* are used to account for the child development center, school store, and community education.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary funds are combined into a single, aggregated presentation in the financial statements.

The proprietary fund financial statements are included on pages 22-24 in the Basic Financial Statements.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements are included on pages 25-26 in the Basic Financial Statements.

Dripping Springs Independent School District

Management's Discussion and Analysis

June 30, 2013

(Continued)

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements are included on pages 27-49 of this report.

Other Supplementary Information

The required TEA schedules can be found immediately following the Basic Financial Statements on pages 51-54 of this report.

Financial Analysis of the District as a Whole

Net Position

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 exceed liabilities by \$51,673,788 at the close of the most recent 12-month period.

By far, the largest portion of the District's net position, \$20,357,255 (39%), reflects its investment in capital assets (e.g., land, buildings, and equipment), less any related debt used to acquire those assets that is still outstanding. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net position, \$10,130,301 (20%), represents resources restricted for various purposes. The remaining balance of *unrestricted net position*, \$21,186,232, represents 41% of the District's total net position and may be used to meet the District's ongoing obligations.

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

Dripping Springs Independent School District

Management's Discussion and Analysis

June 30, 2013

(Continued)

The District's Net Position

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Current and other assets	\$ 39,470,648	\$ 38,974,526	\$ 50,142	\$ 6,215	\$ 39,520,790	\$ 38,980,741
Capital assets	<u>146,739,837</u>	<u>149,941,565</u>	<u>-</u>	<u>-</u>	<u>146,739,837</u>	<u>149,941,565</u>
Total assets	<u>186,210,485</u>	<u>188,916,091</u>	<u>50,142</u>	<u>6,215</u>	<u>186,260,627</u>	<u>188,922,306</u>
Current liabilities	8,024,831	8,881,787	(579,516)	(421,952)	7,445,315	8,459,835
Long-term liabilities	<u>127,141,524</u>	<u>134,601,643</u>	<u>-</u>	<u>-</u>	<u>127,141,524</u>	<u>134,601,643</u>
Total liabilities	<u>135,166,355</u>	<u>143,483,430</u>	<u>(579,516)</u>	<u>(421,952)</u>	<u>134,586,839</u>	<u>143,061,478</u>
Net position						
Net invested in capital assets	20,357,255	16,497,735	-	-	20,357,255	16,497,735
Restricted	10,130,301	11,059,462	-	-	10,130,301	11,059,462
Unrestricted	<u>20,556,574</u>	<u>17,875,464</u>	<u>629,658</u>	<u>428,167</u>	<u>21,186,232</u>	<u>18,303,631</u>
Total net position	<u>\$ 51,044,130</u>	<u>\$ 45,432,661</u>	<u>\$ 629,658</u>	<u>\$ 428,167</u>	<u>\$ 51,673,788</u>	<u>\$ 45,860,828</u>

Governmental and Business-Type Activities

Governmental activities increased the District's net position by \$5,611,469, while business-type activities resulted in an increase of \$201,491. The increase in net position of the governmental activities is due to an increase in revenues of \$1,253,395, a decrease in long-term interest of \$1,369,348, and a decrease in recapture payments to the state of \$1,159,509 compared to 2012 costs.

The District's total revenues were \$53,679,663. A significant portion (74%) of the District's revenue comes from property taxes.

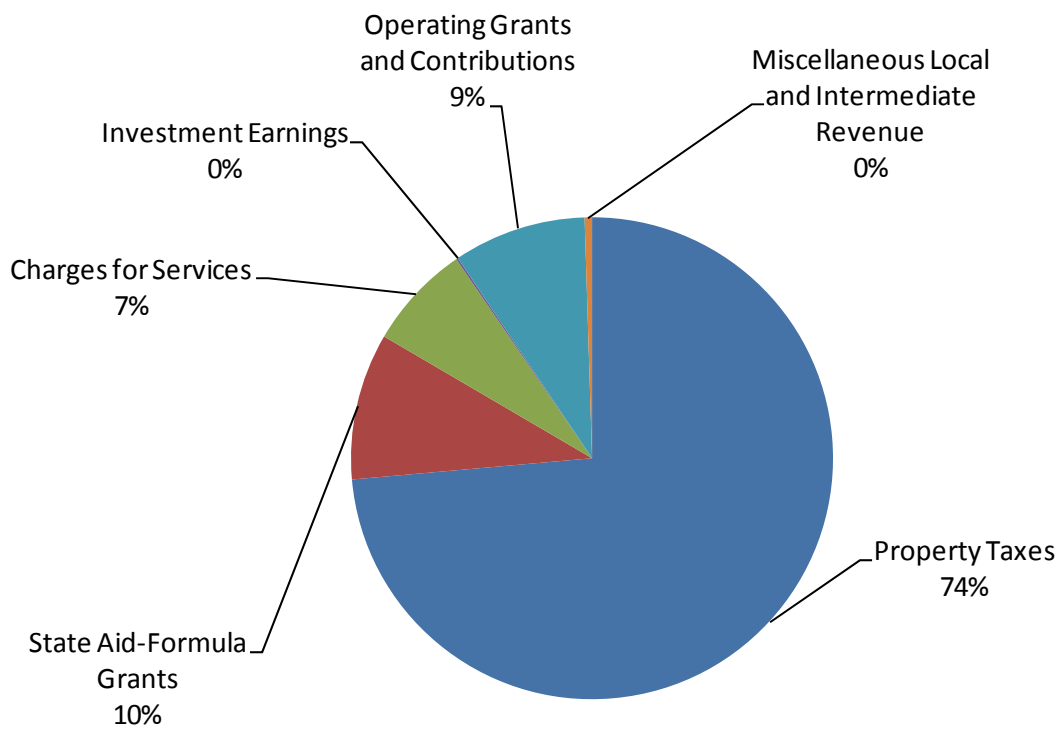
Dripping Springs Independent School District

Management's Discussion and Analysis

June 30, 2013

(Continued)

The District's Revenue By Source



Dripping Springs Independent School District

Management's Discussion and Analysis

June 30, 2013

(Continued)

Changes in the District's net position are shown below.

Changes in the District's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
REVENUES						
Program revenues:						
Charges for services	\$ 2,512,121	\$ 2,340,419	\$ 1,266,122	\$ 1,168,597	\$ 3,778,243	\$ 3,509,016
Operating grants and contributions	4,736,301	4,021,449	43,756	44,119	4,780,057	4,065,568
General revenues:						
Property tax revenues	39,505,296	38,683,334	-	-	39,505,296	38,683,334
State aid-formula grants	5,278,784	5,908,641	-	-	5,278,784	5,908,641
Investment earnings	72,678	69,845	-	-	72,678	69,845
Miscellaneous local and intermediate revenue	264,605	64,862	-	-	264,605	64,862
Transfers	(58,811)	(30,971)	58,811	30,971	-	-
Total revenues	<u>52,310,974</u>	<u>51,057,579</u>	<u>1,368,689</u>	<u>1,243,687</u>	<u>53,679,663</u>	<u>52,301,266</u>
EXPENSES						
Instruction	20,994,128	21,466,408	-	-	20,994,128	21,466,408
Instructional resources and media services	489,096	551,562	-	-	489,096	551,562
Curriculum and staff development	566,950	504,975	-	-	566,950	504,975
Instructional leadership	421,162	426,718	-	-	421,162	426,718
School leadership	1,971,826	2,009,302	-	-	1,971,826	2,009,302
Guidance, counseling, and evaluation	1,186,781	1,171,791	-	-	1,186,781	1,171,791
Health services	270,674	338,781	-	-	270,674	338,781
Student transportation	1,605,779	1,682,079	-	-	1,605,779	1,682,079
Food service	2,155,448	2,032,293	-	-	2,155,448	2,032,293
Co-curricular/extracurricular activities	1,720,724	1,736,501	-	-	1,720,724	1,736,501
General administration	1,588,188	1,753,766	-	-	1,588,188	1,753,766
Plant maintenance and operations	5,348,845	5,906,105	-	-	5,348,845	5,906,105
Security and monitoring services	92,483	23,703	-	-	92,483	23,703
Data processing services	738,598	704,517	-	-	738,598	704,517
Community services	2,067	1,493	-	-	2,067	1,493
Interest on long-term debt	6,133,837	7,503,185	-	-	6,133,837	7,503,185
Bond issuance cost and fees	-	148,397	-	-	-	148,397
Capital outlay	165,896	87,744	-	-	165,896	87,744
Contracted instructional services						
between schools	875,069	2,034,578	-	-	875,069	2,034,578
Other intergovernmental charges	371,954	388,073	-	-	371,954	388,073
Business type activities	-	-	1,167,198	1,141,752	1,167,198	1,141,752
Total expenses	<u>46,699,505</u>	<u>50,471,971</u>	<u>1,167,198</u>	<u>1,141,752</u>	<u>47,866,703</u>	<u>51,613,723</u>
Change in net position	<u>\$ 5,611,469</u>	<u>\$ 585,608</u>	<u>\$ 201,491</u>	<u>\$ 101,935</u>	<u>\$ 5,812,960</u>	<u>\$ 687,543</u>

Dripping Springs Independent School District

Management's Discussion and Analysis

June 30, 2013

(Continued)

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$31,268,775. Approximately 59% of this total amount, \$18,563,081, is available for spending at the government's discretion (*general fund unassigned fund balance*). The remainder of fund balance is nonspendable, restricted, or assigned to indicate it is not available for new spending, because it has already been committed for various purposes, including capital projects, repayment of debt, food service, wastewater plant, and investment in inventories.

General Fund

The general fund is the chief operating fund of the District. At the end of the current 12-month period, fund balance of the general fund was \$20,664,688. Of this amount, \$1,575,000 is committed for construction and capital expenditures, \$295,270 is assigned for various projects, and \$231,337 is nonspendable for investment in inventories. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. The total general fund balance represents approximately 65% of total fund expenditures. The fund balance increased by \$2,187,562 during the current 12-month period. This increase is attributable to savings in the payroll budget of \$1,520,734 due in part to the use of federal EduJobs funds and revenues exceeding budget estimates by \$347,099.

Debt Service

The debt service fund accounts for amounts held for the repayment of long-term debt. At the end of the current 12-month period, the fund balance was \$8,402,295, all of which is restricted for repayment of debt.

Capital Projects

The capital projects fund accounts for the construction of school buildings and improvements. At the end of the current 12-month period, the fund balance was \$758,942, all of which was restricted for subsequent years' expenditures.

Dripping Springs Independent School District

Management's Discussion and Analysis

June 30, 2013

(Continued)

Budgetary Highlights

The District's annual budget, which is prepared on an operating basis, includes estimated revenues and annual appropriations for the general fund.

The District's adjusted 2012-2013 operating results resulted in expenditures \$2,001,107 below final budget amounts. The most significant positive variances resulted from instruction and plant maintenance and operations. These positive variances were offset by negative variances in many of the remaining areas, the most significant of which were co-curricular, general administration, security and monitoring services, capital outlay, and contracted instructional services. The positive variance in instruction resulted from the transfer of payroll costs out of the general fund into a special revenue fund for EduJobs grant funds.

The variance in co-curricular results from donations that are received throughout the year, which increase revenue and expenditures equally, and were not budgeted for. The variance in general administration was due primarily to unanticipated and unbudgeted legal fees. The variance in capital outlay resulted from late year expenditures on a wastewater project at Dripping Springs Elementary. The variance in contracted instructional services is a result of the fact that TEA does not adjust the near final payment due from property wealth schools until well after June 30, and the District does not make budget adjustments after the end of the fiscal year. A positive variance resulted from additional local tax revenue due to increases in the collection of property taxes for the year.

Along with the general fund, the child nutrition fund, which is a special revenue fund, and the debt service fund are also included in the annual operating budget.

Capital Assets and Debt Administration

Capital Assets

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 34, the District has recorded depreciation expense associated with all its capital assets. The District's capital assets for its governmental activities, as of June 30, 2013, amounted to \$146,739,837 – net of accumulated depreciation. This investment in capital assets includes land, buildings and improvements, and furniture and equipment.

Dripping Springs Independent School District

Management's Discussion and Analysis

June 30, 2013

(Continued)

Major capital asset events during the current 12-month period included \$248,087 for new buses and \$493,490 for various furniture and equipment.

	Governmental Activities	
	2013	2012
Land	\$ 7,101,004	\$ 7,101,004
Buildings and improvements	135,875,430	139,202,073
Furniture and equipment	3,488,074	3,599,419
Construction in progress	275,329	39,069
Total – net of depreciation	<u>\$ 146,739,837</u>	<u>\$ 149,941,565</u>

Additional information on the District's capital assets can be found in Note 7 on page 41 of this report.

Long-Term Debt

In April 2013, the District sold bonds authorized by the voters for \$15,500,000 to retire portions of the Series 2003 and Series 2005 bonds. At the end of the current fiscal year, the District had total long-term debt outstanding of \$127,141,524. This entire amount is backed by the full faith and credit of the District.

Bond Ratings

The District's bonds presently carry the following ratings: Standard & Poor's – "AAA" with an underlying rating of "AA" and Moody's Investor Services – "Aaa" with an underlying rating of "Aa2."

	Governmental Activities	
	2013	2012
General obligation bonds and tax notes	\$ 125,745,929	\$ 132,580,058
Premiums, discounts, and deferred charges	1,395,595	2,021,585
	<u>\$ 127,141,524</u>	<u>\$ 134,601,643</u>

Additional information on the District's long-term debt can be found in Note 8 on pages 43-44 of this report.

Dripping Springs Independent School District

Management's Discussion and Analysis

June 30, 2013

(Continued)

Economic Factors and Next Year's Budget and Rates

The District's fall enrollment increased over 2012-2013 enrollment by 328 students or 7%. This increase in students is accompanied by an increase in property values which increased by \$110 million or 4% for the 2013 tax year. With many proposed lots in development, the District anticipates continued student population growth in the future. The 2013 legislative session resulted in increased funding to schools under SB 1 and HB 1025. Although the District remains classified as a "property wealthy" school district under the new funding formulas, the District's property wealth falls below the new threshold of \$495,000 eliminating a payment back to the state of locally collected tax dollars as an equalization method under the school finance system.

Due to the restorations in funding and the adjustment to the property wealth threshold, the District adopted a balanced budget for 2013-2014. The District has appropriated General Fund revenues and expenditures of \$34,558,024 in the 2013-2014 budget. As part of the 2013-2014 budget, employees received a 3% raise. This increase to the budget was partially offset by decreases in the plant maintenance and operations budgets and a decrease in the recapture budget. The overall effect of these actions was an increase of \$561,291 to the expenditure budget for 2013-2014.

The budget was developed to best serve the students of the District and utilize the available resources in a fiscally responsible manner for taxpayers, now and in the future. When approving the budget, the District's Board of Trustees considers the following resource allocation priorities recommended by the District-wide Budget Review Committee:

- Salary/Benefits Consideration – To attract and retain quality employees by remaining competitive within the District's market
- Educational Program – To continuously improve the quality of and provide support of the educational programs
- Long-Range Planning – To prepare for future expansion and development to ensuring quality education
- Fund Balance – To maintain appropriate fund balance in order to preserve the long-term financial stability of the District

Under the guidelines of House Bill 1, the Board of Trustees passed a maintenance and operations tax rate of \$1.0400 and interest and sinking tax rate of \$0.4500 for a combined proposed 2013-2014 tax rate of \$1.4900.

Dripping Springs Independent School District

Management's Discussion and Analysis

June 30, 2013

(Continued)

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 demonstrate the District's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Assistant Superintendent for Business Operations, 510 West Mercer, P.O. Box 479, Dripping Springs, Texas 78620.

Basic Financial Statements

Dripping Springs Independent School District

Exhibit A-1 Statement of Net Position

June 30, 2013

Data Control Codes		Governmental Activities	Business-Type Activities	Total
ASSETS				
1110	Cash, cash equivalents, and temporary investments	\$ 36,239,816	\$ 500	\$ 36,240,316
1220	Property taxes – delinquent	1,152,503	-	1,152,503
1230	Allowance for uncollectible taxes	(207,633)	-	(207,633)
1240	Due from other governments	740,608	-	740,608
1267	Due from fiduciary funds	272	-	272
1290	Other receivables	13,832	24,004	37,836
1300	Inventories – at cost	257,158	25,638	282,796
1410	Prepayments	12,721	-	12,721
1420	Capital bond and other debt issuance costs	1,261,371	-	1,261,371
	Capital assets – net of accumulated depreciation:			
1510	Land	7,101,004	-	7,101,004
1520	Buildings and improvements	135,875,430	-	135,875,430
1530	Furniture and equipment	3,488,074	-	3,488,074
1580	Construction in progress	275,329	-	275,329
1000	Total assets	<u>\$ 186,210,485</u>	<u>\$ 50,142</u>	<u>\$ 186,260,627</u>
LIABILITIES				
	Current liabilities:			
2110	Accounts payable	\$ 440,267	\$ 20,748	\$ 461,015
2140	Bond interest payable	2,029,199	-	2,029,199
2150	Payroll deductions and withholdings payable	181,281	3,549	184,830
2160	Accrued wages payable	2,967,398	117,297	3,084,695
2170	Due to other funds	857,476	(857,476)	-
2180	Due to other governments	1,486,358	-	1,486,358
2300	Unearned revenue	62,852	136,366	199,218
	Noncurrent liabilities:			
2501	Due within one year	4,190,000	-	4,190,000
2502	Due in more than one year	122,951,524	-	122,951,524
2000	Total liabilities	<u>135,166,355</u>	<u>(579,516)</u>	<u>134,586,839</u>
NET POSITION				
3200	Net investment in capital assets	20,357,255	-	20,357,255
3800	Restricted	10,130,301	-	10,130,301
3900	Unrestricted	20,556,574	629,658	21,186,232
3000	Total net position	<u>\$ 51,044,130</u>	<u>\$ 629,658</u>	<u>\$ 51,673,788</u>

The accompanying notes are an integral part of this statement.

Dripping Springs Independent School District

Exhibit B-1 Statement of Activities

Year Ended June 30, 2013

Data Control Codes	Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets		
			Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
11	Instruction	\$ 20,994,128	\$ 260,848	\$ 2,864,035	\$ (17,869,245)	\$ -	\$ (17,869,245)
12	Instructional resources and media services	489,096	-	96,170	(392,926)	-	(392,926)
13	Curriculum and staff development	566,950	-	83,823	(483,127)	-	(483,127)
21	Instructional leadership	421,162	-	27,307	(393,855)	-	(393,855)
23	School leadership	1,971,826	-	119,079	(1,852,747)	-	(1,852,747)
31	Guidance, counseling, and evaluation services	1,186,781	-	349,328	(837,453)	-	(837,453)
33	Health services	270,674	-	13,974	(256,700)	-	(256,700)
34	Student transportation	1,605,779	-	64,224	(1,541,555)	-	(1,541,555)
35	Food service	2,155,448	1,866,815	418,548	129,915	-	129,915
36	Co-curricular/extracurricular activities	1,720,724	288,944	411,355	(1,020,425)	-	(1,020,425)
41	General administration	1,588,188	25,010	49,415	(1,513,763)	-	(1,513,763)
51	Plant maintenance and operations	5,348,845	70,504	168,057	(5,110,284)	-	(5,110,284)
52	Security and monitoring services	92,483	-	356	(92,127)	-	(92,127)
53	Data processing services	738,598	-	25,847	(712,751)	-	(712,751)
61	Community services	2,067	-	44,783	42,716	-	42,716
72	Interest on long-term debt	6,133,837	-	-	(6,133,837)	-	(6,133,837)
81	Capital outlay	165,896	-	-	(165,896)	-	(165,896)
91	Contracted instructional services between schools	875,069	-	-	(875,069)	-	(875,069)
99	Other intergovernmental charges	371,954	-	-	(371,954)	-	(371,954)
TG	Total governmental activities	<u>46,699,505</u>	<u>2,512,121</u>	<u>4,736,301</u>	<u>(39,451,083)</u>	<u>-</u>	<u>(39,451,083)</u>
Business-type activities:							
01	Day care	212,271	224,320	10,514	-	22,563	22,563
02	Community education	947,566	1,038,729	33,242	-	124,405	124,405
03	School store	7,361	3,073	-	-	(4,288)	(4,288)
TB	Total business-type activities	<u>\$ 1,167,198</u>	<u>\$ 1,266,122</u>	<u>\$ 43,756</u>	<u>-</u>	<u>142,680</u>	<u>142,680</u>
General revenues:							
MT	Property taxes – levied for general purposes				27,580,301	-	27,580,301
DT	Property taxes – levied for debt service				11,924,995	-	11,924,995
SF	State aid-formula grants				5,278,784	-	5,278,784
IE	Investment earnings				72,678	-	72,678
MI	Miscellaneous local and intermediate revenue				264,605	-	264,605
FR	Transfers in (out)				(58,811)	58,811	-
TR	Total general revenues and transfers				<u>45,062,552</u>	<u>58,811</u>	<u>45,121,363</u>
CN	Change in net position				5,611,469	201,491	5,812,960
NB	Net position at beginning of year				<u>45,432,661</u>	<u>428,167</u>	<u>45,860,828</u>
NE	Net position at end of year				<u>\$ 51,044,130</u>	<u>\$ 629,658</u>	<u>\$ 51,673,788</u>

The accompanying notes are an integral part of this statement.

Dripping Springs Independent School District

Exhibit C-1 Balance Sheet – Governmental Funds

June 30, 2013

Data Control Codes	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
1110	\$ 4,431,423	\$ 3,484	\$ 430,323	\$ 4,865,230
1120	21,599,830	8,398,811	1,375,945	31,374,586
1220	819,343	333,160	-	1,152,503
1230	(156,969)	(50,664)	-	(207,633)
1240	463,347	-	277,261	740,608
1260	131,845	-	750,079	881,924
1290	13,377	-	455	13,832
1300	231,337	-	25,821	257,158
1410	5,313	-	7,408	12,721
1000	<u>\$ 27,538,846</u>	<u>\$ 8,684,791</u>	<u>\$ 2,867,292</u>	<u>\$ 39,090,929</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110	\$ 377,104	\$ -	\$ 63,163	\$ 440,267
2150	169,851	-	11,430	181,281
2160	2,775,687	-	191,711	2,967,398
2170	1,399,758	-	339,370	1,739,128
2180	1,486,358	-	-	1,486,358
2300	<u>665,400</u>	<u>282,496</u>	<u>59,826</u>	<u>1,007,722</u>
2000	<u>6,874,158</u>	<u>282,496</u>	<u>665,500</u>	<u>7,822,154</u>
Fund balances:				
Nonspendable:				
3110	231,337	-	25,821	257,158
Restricted:				
3250	-	-	969,064	969,064
3270	-	-	758,942	758,942
3280	-	8,402,295	-	8,402,295
3510	1,470,000	-	-	1,470,000
3520	105,000	-	-	105,000
3545	-	-	447,965	447,965
3590	Assigned:			
	295,270	-	-	295,270
3600	<u>18,563,081</u>	<u>-</u>	<u>-</u>	<u>18,563,081</u>
3000	<u>20,664,688</u>	<u>8,402,295</u>	<u>2,201,792</u>	<u>31,268,775</u>
4000	<u>\$ 27,538,846</u>	<u>\$ 8,684,791</u>	<u>\$ 2,867,292</u>	<u>\$ 39,090,929</u>

The accompanying notes are an integral part of this statement.

Dripping Springs Independent School District

Exhibit C-1R

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

June 30, 2013

Total fund balances – governmental fund balance sheet	\$ 31,268,775
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	146,739,837
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	944,870
The following liabilities are not due and payable in the current period and, therefore, are not reported in the funds:	
Bonds payable – including premiums	(128,647,096)
Less issuance costs	1,261,371
Less unamortized charge on refunding	1,591,501
Bond interest payable	(2,029,199)
Accretion of interest payable	<u>(85,929)</u>
Net position of governmental activities	\$ <u>51,044,130</u>

The accompanying notes are an integral part of this statement.

Dripping Springs Independent School District

Exhibit C-2

Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds

Year Ended June 30, 2013

Data Control Codes		General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
5700	Local and intermediate sources	\$ 28,425,853	\$ 11,933,723	\$ 2,929,002	\$ 43,288,578
5800	State program revenues	5,698,857	-	231,275	5,930,132
5900	Federal program revenues	57,289	-	2,262,322	2,319,611
5020	Total revenues	<u>34,181,999</u>	<u>11,933,723</u>	<u>5,422,599</u>	<u>51,538,321</u>
EXPENDITURES					
Current:					
0011	Instruction	16,618,383	-	2,003,400	18,621,783
0012	Instructional resources and media services	354,834	-	78,983	433,817
0013	Curriculum and staff development	437,548	-	65,270	502,818
0021	Instructional leadership	364,446	-	9,152	373,598
0023	School leadership	1,720,423	-	28,755	1,749,178
0031	Guidance, counseling, and evaluation services	740,004	-	312,651	1,052,655
0033	Health services	238,243	-	1,869	240,112
0034	Student transportation	1,674,442	-	1,792	1,676,234
0035	Food service	-	-	1,932,313	1,932,313
0036	Co-curricular/extracurricular activities	1,147,764	-	378,210	1,525,974
0041	General administration	1,408,697	-	-	1,408,697
0051	Plant maintenance and operations	4,983,654	-	14,154	4,997,808
0052	Security and monitoring services	81,670	-	87,861	169,531
0053	Data processing services	655,109	-	245,267	900,376
0061	Community services	763	-	1,070	1,833
Debt service:					
0071	Principal on long-term debt	-	4,525,000	-	4,525,000
0072	Interest on long-term debt	-	6,091,000	-	6,091,000
0073	Other debt service	-	234,903	-	234,903
0081	Capital outlay	262,623	-	267,562	530,185
Intergovernmental:					
0091	Contracted instructional services between schools	875,069	-	-	875,069
0099	Other intergovernmental charges	371,954	-	-	371,954
6030	Total expenditures	<u>31,935,626</u>	<u>10,850,903</u>	<u>5,428,309</u>	<u>48,214,838</u>
1100	Excess (deficiency) of revenues over (under) expenditures	<u>2,246,373</u>	<u>1,082,820</u>	<u>(5,710)</u>	<u>3,323,483</u>
OTHER FINANCING SOURCES (USES)					
7911	Refunding bonds issued	-	15,500,000	-	15,500,000
7915	Transfers in	37,915	-	199,877	237,792
7916	Premium on issuance of bonds	-	1,309,706	-	1,309,706
8911	Transfers out	(96,726)	-	(199,877)	(296,603)
8949	Payment to bond refunding escrow agent	-	(18,774,258)	-	(18,774,258)
7080	Total other financing sources (uses)	<u>(58,811)</u>	<u>(1,964,552)</u>	<u>-</u>	<u>(2,023,363)</u>
1200	Net change in fund balances	2,187,562	(881,732)	(5,710)	1,300,120
0100	Fund balances at beginning of year	<u>18,477,126</u>	<u>9,284,027</u>	<u>2,207,502</u>	<u>29,968,655</u>
3000	Fund balances at end of year	<u>\$ 20,664,688</u>	<u>\$ 8,402,295</u>	<u>\$ 2,201,792</u>	<u>\$ 31,268,775</u>

The accompanying notes are an integral part of this statement.

Dripping Springs Independent School District

Exhibit C-3

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds to the Statement of Activities

Year Ended June 30, 2013

Net change in fund balances – total Governmental Funds	\$ 1,300,120
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental Funds report capital outlays as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:	
Capital outlay – exclusive of noncapitalized items	1,291,042
Depreciation expense	(4,492,770)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Change in unearned tax revenue	(118,422)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position:	
Issuance costs	235,448
Repayment of bonds and notes principal	22,295,000
Bond proceeds – including premium	(16,809,706)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Change in bond interest payable	254,926
Change in accretion payable	39,129
Amortization of issuance costs	(318,994)
Deferred charge on refunding	1,749,359
Amortization of unamortized charge on refunding	(359,188)
Amortization of bond premiums/discount	545,525
Change in net position of governmental activities	<u>\$ 5,611,469</u>

The accompanying notes are an integral part of this statement.

Dripping Springs Independent School District

Exhibit D-1

Statement of Net Position – Proprietary Funds

June 30, 2013

	Business-Type Activities – Nonmajor Enterprise Funds
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 500
Due from other funds	857,476
Other receivables	24,004
Inventories	25,638
	<hr/>
Total assets	\$ 907,618
	<hr/> <hr/>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 20,748
Payroll deductions and withholdings payable	3,549
Accrued wages payable	117,297
Unearned revenue	136,366
	<hr/>
Total liabilities	277,960
	<hr/>
NET POSITION	
Unrestricted net position	629,658
	<hr/>
Total net position	\$ 629,658
	<hr/> <hr/>

The accompanying notes are an integral part of this statement.

Dripping Springs Independent School District

Exhibit D-2

Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds

Year Ended June 30, 2013

	Business-Type Activities – Nonmajor Enterprise Funds
OPERATING REVENUES	
Local and intermediate sources	\$ 1,266,122
State program revenues	43,756
Total operating revenues	<u>1,309,878</u>
OPERATING EXPENSES	
Payroll costs	869,128
Professional and contracted services	154,789
Supplies and materials	134,812
Other operating	8,469
Total operating expenses	<u>1,167,198</u>
Operating income before transfers	<u>142,680</u>
TRANSFERS	
Transfers in	96,726
Transfers out	(37,915)
Total net transfers	<u>58,811</u>
Change in net position	201,491
Total net position at beginning of year	<u>428,167</u>
Total net position at end of year	<u>\$ 629,658</u>

The accompanying notes are an integral part of this statement.

Dripping Springs Independent School District

Exhibit D-3

Statement of Cash Flows – Proprietary Funds

Year Ended June 30, 2013

	Business-Type Activities – Nonmajor Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers and contributors	\$ 1,093,377
Payments to suppliers	(291,860)
Payments to employees	(860,028)
	(58,511)
Net cash used in operating activities	(58,511)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	96,726
Transfers to other funds	(37,915)
	58,811
Net cash provided by noncapital financing activities	58,811
Net increase in cash and cash equivalents	300
Cash and cash equivalents at beginning of year	200
Cash and cash equivalents at end of year	\$ 500
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES	
Operating income before transfers	\$ 142,680
Adjustments to reconcile operating income before transfers to net cash used in operating activities:	
Increase in receivables	(17,989)
Increase in due from other funds	(165,539)
Increase in inventories	(25,638)
Increase in accounts payable	6,210
Increase in payroll deductions and withholdings payable	298
Increase in accrued wages payable	8,802
Decrease in unearned revenue	(7,335)
	(58,511)
Net cash used in operating activities	\$ (58,511)

The accompanying notes are an integral part of this statement.

Dripping Springs Independent School District

Exhibit E-1

Statement of Fiduciary Net Position – Fiduciary Funds

June 30, 2013

	<u>Private Purpose Trust Fund</u>	<u>Agency Funds</u>
ASSETS		
Cash and cash equivalents	\$ 3,000	\$ 24,628
Temporary investments	<u>59,039</u>	<u>8,231</u>
Total assets	<u>\$ 62,039</u>	<u>\$ 32,859</u>
LIABILITIES		
Due to other funds	\$ -	\$ 272
Due to student groups	<u>-</u>	<u>32,588</u>
Total liabilities	<u>-</u>	<u>\$ 32,860</u>
NET POSITION		
Held in trust for private purposes	<u>\$ 62,039</u>	

The accompanying notes are an integral part of this statement.

Dripping Springs Independent School District

Exhibit E-2

Statement of Changes in Fiduciary Net Position – Fiduciary Funds

Year Ended June 30, 2013

	<u>Private Purpose Trust Fund</u>
ADDITIONS	
Donations	\$ <u>73</u>
	73
DEDUCTIONS	
Scholarships	<u>3,500</u>
Change in net position	(3,427)
Net position held in trust for private purposes at beginning of year	<u>65,466</u>
Net position held in trust for private purposes at end of year	<u><u>\$ 62,039</u></u>

The accompanying notes are an integral part of this statement.

Dripping Springs Independent School District

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies

The Financial Reporting Entity

This report includes those activities, organizations, and functions which are related to the Dripping Springs Independent School District (the "District") and which are controlled by or dependent upon the District's governing body, the Board of Trustees (the "Board"). The Board, a seven member group, is the level of government which has governance responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the District. Since the District receives funding from local, state, and federal government sources, it must comply with the requirements of the entities providing those funds. However, the District is not included in any other governmental "reporting entity," as defined by Governmental Accounting Standards Board ("GASB") in Section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*, since Board members are elected by the public and have decision making authority. There are no component units included within the reporting entity. The District is a governmental entity exempt from federal income taxation under Internal Revenue Code Section 115.

The accounting policies of the District substantially comply with the rules prescribed by the Texas Education Agency's ("TEA") Financial Accountability System Resource Guide ("FAR"). These accounting policies conform to generally accepted accounting principles applicable to state and local governments.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. Governmental activities, which are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support.

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

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

Dripping Springs Independent School District

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary funds financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. Amounts reported as program revenues include (1) charges to customers or applicants for goods, services, or privileges provided, and (2) operating grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues, other than grants, are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred and all eligibility requirements have been met, except in the Child Nutrition Special Revenue Fund where revenue recognized is based on the number of students served. Funds received, but unearned, are reflected as unearned revenues, and funds expended, but not yet received, are shown as receivables. Interest revenue and building rentals are recorded when earned since they are measurable and available. Other revenues such as fees, tuition, local food service revenue, and miscellaneous revenues are recognized when measurable and available. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and rebatable arbitrage expenditures are recorded only when the liability has matured.

Major revenue sources considered susceptible to accrual include state and federal program revenues and interest income. No accrual for property taxes collected within 60 days of year end has been made, as these amounts are deemed immaterial; delinquent property taxes at year end are reported as unearned revenue.

The District reports the following major governmental funds:

- The General Fund includes financial resources used for general operations. It is a budgeted fund, and any fund balances are considered resources available for current operations.
- The Debt Service Fund includes debt service taxes and other revenues collected to retire bond principal and to pay interest due. This fund is a budgeted fund.

Dripping Springs Independent School District

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

Additionally, the District reports the following nonmajor fund types:

- Special Revenue Funds are governmental funds which include resources restricted to, or designated for, specific purposes by a grantor. State and federally financed programs, where unused balances are returned to the grantor at the close of specified project periods, are accounted for in these funds. The District uses project accounting to maintain integrity for the various sources of funds. This fund type also includes child nutrition operations, and campus activity funds, which are allowed to maintain fund balances. The child nutrition fund is required to be budgeted.
- The Capital Projects Fund accounts for resources accumulated and payments made for the acquisition and improvement of sites, construction and remodeling of facilities, and procurement of the equipment necessary for providing educational programs for all students within the District. This fund is budgeted on a project basis.
- Enterprise Funds are proprietary funds used to account for the operations of the District's day care and community education funds.
- The Private Purpose Trust Fund is a fiduciary trust fund and is used to account for the principal and income that benefit individuals in the form of scholarships.
- The Agency Fund is an unbudgeted fund and is used to account for activities of student groups. This fund has no equity, assets are equal to liabilities, and it does not include revenues and expenditures for general operations of the District.
- Proprietary Funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

Dripping Springs Independent School District

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)

The District reports the following types of governmental fund balances: Nonspendable, Restricted, Committed, Assigned, and Unassigned.

- Nonspendable fund balances are those that are not in a spendable form.
- Restricted fund balances are those that have constraints placed on the use of their resources. These constraints can be: (a) externally imposed by creditors (i.e., debt covenants), grantors, contributors, or laws/regulations of other governments; or (b) imposed by law through constitutional provision or enabling legislation. Both constraints are legally enforceable by an external party.
- Committed fund balances consist of District funds that may be used only for a specific purpose, pursuant to constraints imposed by formal action of the District's Board. Purposes and amounts of committed fund balances can be modified only by formal action of the District's Board.
- Assigned fund balances are those that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Assigned fund balances do not require formal action by the District's Board and "intent" may be specified simply through the budgeting process that the resources from these funds are to be spent for specific purposes within the fund.
- Unassigned fund balances are those within the General Fund and represent fund balances that have not been restricted, committed, or assigned.

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

Effective July 1, 2012, the District adopted GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* ("Statement No. 62"), and GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, ("Statement No. 63"). Statement No. 62 incorporates (1) FASB Statements and Interpretations, (2) Accounting Principles Board Opinions, and (3) Accounting Research Bulletins, issued on or before November 30, 1989 that do not conflict or contradict GASB pronouncements into GASB's authoritative literature. Statement No. 63 renames the statement of net assets as the statement of net position and provides guidance for reporting deferred outflows of resources and deferred inflows of resources within the financial statements of governmental entities. The adoption of these standards did not have a significant impact on the District's financial statements.

Dripping Springs Independent School District

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

Budgetary Information

The Board adopts an “appropriated budget” for the General Fund, Debt Service Fund, and the Child Nutrition Fund, which is included in the Special Revenue Funds. The District is required to present the original and final amended budgeted revenues and expenditures compared to actual revenues and expenditures for these funds. This information is presented as required supplementary information for the General Fund and as supplementary information for the Child Nutrition Funds and Debt Service.

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- Prior to June 30, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
- A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
- Prior to July 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
- Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at June 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year’s budget.

There were end-of-year outstanding encumbrances provided for in the subsequent year’s budget totaling \$295,270 for the General Fund and \$59,918 in the Special Revenue Funds.

Dripping Springs Independent School District

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

Budgetary Information (continued)

The District had several variances between final appropriations and outlays in the General Fund. These variances were due to a number of factors that were unforeseen before the preparation of the final budget amendment. The following table describes the budget variances:

Data Control Codes	Function	Final Budget	Actual	Variance With Final Budget	Explanation
12	Instructional resources and media services	\$ 353,706	\$ 354,834	\$ (1,128)	Year-end payroll accrual was booked after final budget amendment.
13	Curriculum and staff development	401,699	437,548	(35,849)	Year-end payroll accrual was booked after final budget amendment.
21	Instructional leadership	354,390	364,446	(10,056)	Year-end payroll accrual was booked after final budget amendment.
23	School leadership	1,720,249	1,720,423	(174)	Year-end payroll accrual was booked after final budget amendment.
33	Health services	228,881	238,243	(9,362)	Year-end payroll accrual was booked after final budget amendment.
36	Co-curricular/extracurricular activities	1,066,160	1,147,764	(81,604)	Extra-duty pay and overtime pay exceeded estimates.
41	General administration	1,344,254	1,408,697	(64,443)	Unanticipated and unbudgeted legal fees.
52	Security and monitoring services	36,049	81,670	(45,621)	Reclass of items from capital projects fund after final budget amendment.
61	Community services	-	763	(763)	Reclass of payroll expenditures after final budget amendment.
81	Capital outlay	236,808	262,623	(25,815)	Year-end costs for waste water project.
91	Contracted instructional services between schools	850,000	875,069	(25,069)	TEA does not adjust the near final payment due from property wealthy schools until well after June 30 and the District does not make budget amendments after the end of the fiscal year.

Dripping Springs Independent School District

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

Assets, Liabilities, and Net Positions or Equity

Statement of Cash Flows – For purposes of the statement of cash flows, the District considers all highly liquid investments with maturities of three months or less when purchased to be cash equivalents.

Investments – Temporary investments throughout the year consisted of investments in external investment pools and money market mutual funds. The District is entitled to invest any and all of its funds in fully collateralized certificates of deposit (“CDs”), direct debt securities of the United States of America or the state of Texas, certain Federal agency securities and other types of municipal bonds, fully collateralized repurchase agreements, bankers’ acceptances, commercial paper, money market mutual funds, and local government investment pools. The District’s investment policies and types of investments are governed by Section 2256 of the Government Code (“Public Funds Investment Act”). The District accrues interest on temporary investments based on the terms and effective interest rates of the specific investments.

Inventories – Inventories in the General Fund consist of expendable supplies held for consumption. Inventories are charged to expenditures when consumed. Supply inventory is recorded at cost using the weighted average method and is offset at year-end by a nonspendable fund balance, which indicates they do not represent available spendable resources. Federal food commodities inventory is stated at fair value and, at year-end, is recorded as unearned revenue. Revenue is recognized at fair value when commodities are distributed to the schools.

Dripping Springs Independent School District

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

Assets, Liabilities, and Net Position or Equity (continued)

Capital Assets – Capital assets, which include land, buildings and improvements, furniture and equipment, and construction in process, are reported in the governmental activities column in the government-wide financial statements. The District has no infrastructure assets. The District defines capital assets as assets with an initial individual cost of more than \$5,000. Such assets are recorded at historical cost, if purchased, or estimated fair value at the date of donation, if donated. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Major outlays of capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction is not capitalized. Capital assets (other than land) are depreciated using the straight-line method over the following estimated useful lives: buildings and improvements – 20 to 50 years and furniture and equipment – 5 to 15 years.

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

Due From (To) Other Funds – Interfund receivables and payables arise from interfund receipts or disbursements of cash and are recorded in all affected funds in the period in which transactions are executed in the normal course of operations.

Prepayments – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenses in both the government-wide and fund financial statements.

Accumulated Sick Leave Liability – The state of Texas has created a minimum sick leave program consisting of five days of sick leave per year with no limit on accumulation and transferability among districts for every person regularly employed in Texas public schools. Each district's local board is required to establish a sick leave plan. Local school districts may provide additional sick leave beyond the state minimum. The District's policy is not to provide reimbursement upon termination of employment with the District. Accordingly, no liability for accrued compensated absences has been established by the District.

Rebatable Arbitrage – The interest paid on most debt issued by state and local governments is exempt from federal income tax. As a result, purchasers of state and municipal debt are willing to accept lower interest rates than they would on taxable debt. State and local governments sometimes temporarily reinvest the proceeds of such tax-exempt debt in materially higher-yielding taxable securities, especially during construction projects. The federal tax code refers to this practice as arbitrage. The District's liability for rebatable arbitrage as of June 30, 2013 was \$0. The District paid no rebatable arbitrage during the year ended June 30, 2013. No recognition is made in governmental funds until rebatable amounts are actually due and payable to the federal government.

Dripping Springs Independent School District

Notes to Basic Financial Statements

1. Summary of Significant Accounting Policies (continued)

Assets, Liabilities, and Net Position or Equity (continued)

Fund Equity – In the fund financial statements, unassigned fund balances for governmental funds indicate available amounts for the budgeting of future operations. Restricted and assigned fund balances are that portion of fund equity which is not available for appropriation or which has been legally separated for specific purposes. Designations of fund balance as nonspendable, restricted, committed, assigned, or unassigned are the representations of management for the utilization of financial resources in future periods.

Data Control Totals – The data control codes refer to the account code structure prescribed by the TEA in the FAR. TEA requires school districts to display these codes in the financial statements filed with the agency in order to insure accuracy in building a statewide database for policy development and funding plans.

Use of Estimates – The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America (“GAAP”) requires the use of management’s estimates.

Accrued Wages Payable – Employees who do not work a full year are generally paid from September through August. Employee wages earned, but unpaid as of June 30, are accrued as a liability. The accrued wages for these employees, most of whom are teachers, are generally paid in July and August.

2. Deposits and Investments

The Public Funds Investment Act authorizes the District to invest in funds under a written investment policy. The District’s deposits and investments are invested pursuant to the investment policy, which is approved annually by the Board. The primary objectives of the District’s investment strategy, in order of priority, are preservation and safety of principal.

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

- Obligations of, or guaranteed by, governmental entities
- CDs and share certificates
- Fully collateralized repurchase agreements
- A securities lending program that meets various requirements
- Banker’s acceptances as permitted by Government Code
- Commercial paper as permitted by Government Code

Dripping Springs Independent School District

Notes to Basic Financial Statements

2. Deposits and Investments (continued)

- No-load money market mutual funds and no-load mutual funds that are registered with the Securities and Exchange Commission ("SEC") and meet the criteria and eligibility requirements
- A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements
- Public funds investment pools meeting certain requirements

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the School Depository Act. The depository bank deposits for safekeeping and trust with the District's agent approved pledged securities 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 dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. Therefore the District is not exposed to custodial credit risk.

Under the depository contract, the District, at its own discretion, may invest funds in time deposits and CDs provided by the depository bank.

At June 30, 2013, the carrying amount of the District's deposits was \$4,893,358, and the bank balance was \$5,070,351.

The District's deposits with financial institutions at June 30, 2013, and during the year ended June 30, 2013, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name. The deposits were collateralized in accordance with Texas law.

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

- Name of depository bank: Prosperity Bank
- Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$7,051,896.
- Largest cash, savings, and time deposit combined account balance amounted to \$6,037,481 and occurred during the month of August 2012.
- Total amount of FDIC coverage at the time of highest combined balance was \$250,000.

Dripping Springs Independent School District

Notes to Basic Financial Statements

2. Deposits and Investments (continued)

Investments held at June 30, 2013 consisted of the following:

Type	Carrying and Fair Value
Texas Local Government Investment Pool	\$ 23,915,189
TexasDAILY Local Government Investment Pool	<u>7,526,667</u>
	<u>\$ 31,441,856</u>

The District participates in the Texas Local Governmental Investment Pool (“TexPool”), which is an external investment pool offered to local governments under the provisions of the Interlocal Cooperations Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act. Although TexPool is not registered with the SEC as an investment company, the District believes it operates as a Rule 2a7-like pool, as described in GASB Statement No. 59. As such, the District uses amortized cost to report its investment.

TexPool is overseen by the Texas State Comptroller of Public Accounts, who is the sole officer, director, and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool. TexPool also has an advisory board to advise on TexPool’s investment policy, and this board is made up equally of participants and nonparticipants who do not have a business relationship with TexPool. TexPool’s investment policy stipulates that it must invest in accordance with the Public Funds Investment Act. TexPool is rated AAAM by Standard & Poor’s.

TexasDAILY is a public funds investment pool established by the TexasTERM Local Government Investment Pool (“TexasTERM”) Advisory Board pursuant to provisions of the TexasTERM Common Investment Contract that established the TexasTERM Local Government Investment Pool and the series known as TexasDAILY. TexasDAILY was organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. An advisory board composed of participants and nonparticipant members elected by the participant shareholders of TexasTERM is responsible for the overall management of TexasTERM, including the formulation and implementation of its investment and operating policies. In addition, the advisory board members select and oversee the activities of the investment advisor and custodian of TexasTERM and monitor investment performance and the method of valuing the shares. The investment advisor and administrator for TexasDAILY is PFM Asset Management, LLC. TexasTERM and TexasDAILY are rated AAAM by Standard & Poor’s. Although TexasTERM is not registered with the SEC as an investment company, the District believes it operates as a Rule 2a7-like pool, as described in Statement No. 59.

Dripping Springs Independent School District

Notes to Basic Financial Statements

2. Deposits and Investments (continued)

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized agencies are designed to give an indication of credit risk. At June 30, 2013, investments were included in local governmental investment pools with ratings from Standard & Poor's in compliance with the District's investment policy.

Custodial Credit Risk – Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the District, and are held by either the counterparty or the counterparty's trust department or agent, but not in the District's name. At June 30, 2013, the District was not exposed to custodial credit risk.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investments in a single issuer. At June 30, 2013, all of the District's investments were with TexPool and TexasDAILY.

Interest Rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations, the District's investment policy requires that maturities will not exceed the weighted average maturity of 180 days for any internally created pool fund group and one year from the time of purchase for any other individual investment. The Board may specifically authorize a longer maturity for a given investment, within legal limits. The District considers the holdings in the local governmental investment pool to have a one day weighted average maturity due to the fact that the share position can usually be redeemed each day at the discretion of the shareholders, unless there has been a significant change in value.

3. Appraisal District and Property Taxes

The Texas Legislature in 1979 adopted a comprehensive Property Tax Code (the "Code") which established a county-wide appraisal district and an appraisal review board in each county in the State. The Hays Central Appraisal District and Travis Central Appraisal District (the "Appraisal Districts") are responsible for the recording and appraisal of all property in the District. Under the Code, the District sets the tax rates on property, and the Hays County Tax Office provides tax collection services. The Appraisal Districts are required under the Code to assess property at 100% of its appraised value. Further, real property must be reappraised at least every four years.

Dripping Springs Independent School District

Notes to Basic Financial Statements

3. Appraisal District and Property Taxes (continued)

Under certain circumstances, taxpayers and taxing units, including the District, may challenge orders of the Appraisal Districts’ review boards through various appeals and, if necessary, legal action.

Property taxes are levied as of October 1 in conformity with Subtitle E of the Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, and penalties and interest that are ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

The assessed value at January 1, 2012, upon which the October 2012 levy was based, was \$2,852,195,174. The District levied taxes based on a combined tax rate of \$1.49 per \$100 of assessed valuation for local maintenance (general governmental services) and debt service.

4. Due From Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully fund certain activities. The District also receives entitlements from the State through the School Foundation and Per Capita Programs. These amounts are reported in the basic financial statements as due from other governments and are summarized below as of June 30, 2013.

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
State	\$ <u>463,347</u>	\$ <u>277,261</u>	\$ <u>740,608</u>

Dripping Springs Independent School District

Notes to Basic Financial Statements

5. Interfund Receivables and Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds.” The composition of interfund balances as of June 30, 2013 is as follows:

	<u>Due From</u>	<u>Due To</u>
Major fund – general fund:		
Nonmajor	\$ 131,573	\$ (545,060)
Proprietary	-	(854,698)
Agency	272	-
Total general fund	131,845	(1,399,758)
Nonmajor funds:		
Nonmajor	205,019	(102,681)
Proprietary	-	(2,778)
General	545,060	(233,911)
Total nonmajor funds	750,079	(339,370)
Proprietary fund:		
General	854,698	-
Nonmajor	2,778	-
Total proprietary fund	857,476	-
Fiduciary fund:		
General	-	(272)
Total fiduciary fund	-	(272)
Total all funds	\$ 1,739,400	\$ (1,739,400)

During the year, a nonmajor proprietary fund transferred \$37,915 to the General Fund to transfer revenue related to community education. During the year, the General Fund transferred \$66,800 to a nonmajor proprietary fund to satisfy the District’s obligation to the child development center. During the year, the General fund transferred \$29,926 to a nonmajor proprietary fund to fund the school store.

During the year, the District closed a capital project fund due to the completion of the construction project and transferred \$199,877 to another capital project fund.

Dripping Springs Independent School District

Notes to Basic Financial Statements

6. Unearned Revenue

At June 30, 2013, unearned revenue in governmental funds consisted of the following:

	General Fund	Debt Service	Nonmajor Governmental Funds	Total
Net tax revenue	\$ 662,374	\$ 282,496	\$ -	\$ 944,870
Federal and state grants	3,026	-	59,826	62,852
	\$ 665,400	\$ 282,496	\$ 59,826	\$ 1,007,722

7. Capital Assets

Capital asset activity for the year ended June 30, 2013 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets – not being depreciated:				
Land	\$ 7,101,004	\$ -	\$ -	\$ 7,101,004
Construction in progress	39,069	275,329	(39,069)	275,329
Total capital assets – not being depreciated	7,140,073	275,329	(39,069)	7,376,333
Capital assets – being depreciated:				
Buildings and improvements	162,579,861	238,136	39,069	162,857,066
Furniture and equipment	11,397,442	777,577	-	12,175,019
Total capital assets – being depreciated	173,977,303	1,015,713	39,069	175,032,085
Less accumulated depreciation for:				
Buildings and improvements	(23,377,788)	(3,603,848)	-	(26,981,636)
Furniture and equipment	(7,798,023)	(888,922)	-	(8,686,945)
Total accumulated depreciation	(31,175,811)	(4,492,770)	-	(35,668,581)
Total capital assets, being depreciated – net	142,801,492	(3,477,057)	39,069	139,363,504
Governmental activities capital assets – net	\$ 149,941,565	\$ (3,201,728)	\$ -	\$ 146,739,837

Dripping Springs Independent School District

Notes to Basic Financial Statements

7. Capital Assets (continued)

Depreciation expense was charged to functions/programs of the District as follows:

Governmental Activities

Instruction	\$ 2,372,345
Instructional resources and media services	55,279
Curriculum and staff development	64,132
Instructional leadership	47,564
School leadership	222,648
Guidance, counseling, and evaluation services	134,126
Health services	30,562
Student transportation	213,632
Food service	246,855
Co-curricular/extracurricular activities	194,750
General administration	179,491
Plant maintenance and operations	637,189
Security and monitoring services	10,474
Data processing services	83,489
Community services	<u>234</u>
	<u>\$ 4,492,770</u>

Dripping Springs Independent School District

Notes to Basic Financial Statements

8. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended June 30, 2013.

	Interest Rate Payable	Amount Original Issue	Beginning Balance	Accretion	Additions/ Refunding	Reductions	Ending Balance	Current Maturities
Bonds and Notes Payable								
Unlimited Tax Refunding Bonds, Series 2003	3.00%-4.25%	\$ 8,699,997	\$ 5,125,000	\$ -	\$ (3,550,000)	\$ (765,000)	\$ 810,000	\$ 810,000
School Building Unlimited Tax Bonds, Series 2005	3.00%-5.00%	28,520,000	16,915,000	-	(14,220,000)	(865,000)	1,830,000	895,000
Unlimited Tax Refunding Bonds, Series 2007	4.00%-4.50%	5,085,000	4,745,058	(57,034)	-	-	4,688,024	-
Unlimited Tax School Building Bonds, Series 2008	3.00%-5.25%	96,170,000	87,360,000	-	-	(2,040,000)	85,320,000	2,120,000
Unlimited Tax Refunding Bonds, Series 2010	2.00%-4.00%	10,380,000	9,630,000	-	-	(715,000)	8,915,000	-
Unlimited Tax Refunding Bonds, Series 2012A	2.00%-3.00%	9,605,000	8,805,000	17,905	-	(140,000)	8,682,905	85,000
Unlimited Tax Refunding Bonds, Series 2013	1.13%-5.00%	15,500,000	-	-	15,500,000	-	15,500,000	280,000
Total bonds and notes payable			132,580,058	(39,129)	(2,270,000)	(4,525,000)	125,745,929	4,190,000
Deferred charge on Series 2003 Refunding			(132,206)	-	-	105,766	(26,440)	-
Deferred charge on Series 2007 Refunding			(69,124)	-	-	6,284	(62,840)	-
Deferred charge on Series 2010 Refunding			-	-	(949,334)	237,334	(712,000)	-
Deferred charge on Series 2013 Refunding			-	-	(800,025)	9,804	(790,221)	-
Premium on Series 2003 Refunding			37,298	-	-	(29,838)	7,460	-
Premium on Series 2005 Bonds			383,070	-	-	(340,506)	42,564	-
Premium on Series 2010 Bonds			918,565	-	-	(99,304)	819,261	-
Premium on Series 2012A Refunding			1,172,170	-	-	(79,469)	1,092,701	-
Premium on Series 2013 Bonds			-	-	1,309,706	(12,127)	1,297,579	-
Discount on 2008 Bonds			(288,188)	-	-	15,719	(272,469)	-
Total long-term debt payable			\$ 134,601,643	\$ (39,129)	\$ (2,709,653)	\$ (4,711,337)	\$ 127,141,524	\$ 4,190,000

For the general obligation bonds, the District has pledged as collateral the proceeds of a continuing, direct annual tax levied against taxable property within the District without limitation as to rate. The Texas Education Code generally limits issuance of additional ad valorem tax bonds if the tax rate needed to pay aggregate principal and interest amounts of the District's tax bond indebtedness exceeds \$0.50 per \$100.00 of assessed valuation of taxable property within the District. The District currently has a debt service tax rate of \$0.45.

Dripping Springs Independent School District

Notes to Basic Financial Statements

8. Long-Term Debt (continued)

Annual debt service requirements for all bonds and notes payable are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 4,190,000	\$ 5,503,196	\$ 9,693,196
2015	4,915,000	5,471,144	10,386,144
2016	4,680,000	5,318,632	9,998,632
2017	4,835,000	5,171,319	10,006,319
2018	5,035,000	4,993,169	10,028,169
2019-2023	30,165,000	22,674,102	52,839,102
2024-2028	33,545,000	14,582,206	48,127,206
2029-2033	38,295,000	5,838,851	44,133,851
	125,660,000	\$ 69,552,619	\$ 195,212,619
Plus accretion – Series 2007	85,929		
	\$ 125,745,929		
	Accretion Payable		
Balance at June 30, 2012	\$ 125,058		
Current year portion	(39,129)		
Balance at June 30, 2013	\$ 85,929		

The interest shown above, with respect to the Capital Appreciation Bonds, includes the interest to be paid on bonds maturing in the respective years and does not include accrued interest on bonds not maturing in those years.

In April 2013, the District issued \$15,500,000 of Unlimited Tax Refunding Bonds, Series 2013, in order to retire a portion of the outstanding Unlimited Tax Refunding Bonds, Series 2003, and a portion of the outstanding Unlimited Tax School Building Bonds, Series 2005. This refunding transaction resulted in cash flow savings of \$2,584,014 and net present value savings of \$1,607,752 over the life of the bonds.

Dripping Springs Independent School District

Notes to Basic Financial Statements

9. Revenues From Local and Intermediate Sources

For the year ended June 30, 2013, revenues from local and intermediate sources in governmental funds consisted of the following:

	General Fund	Debt Service Fund	Other Governmental Funds	Total
Property taxes	\$ 27,381,874	\$ 11,841,948	\$ -	\$ 39,223,822
Penalties, interest, and other tax related income	198,427	83,047	-	281,474
Food service	-	-	1,866,815	1,866,815
Enterprising services	-	-	791,147	791,147
Investment income	58,962	8,728	4,988	72,678
Co-curricular/extracurricular activities	288,944	-	-	288,944
Gifts and bequests	88,337	-	54,394	142,731
Management fees	25,010	-	-	25,010
Rent	70,504	-	-	70,504
Tuition and fees from patrons	260,848	-	-	260,848
Other	52,947	-	211,658	264,605
Total	\$ 28,425,853	\$ 11,933,723	\$ 2,929,002	\$ 43,288,578

10. Defined Benefit Pension Plan Obligations

Plan Description

The District contributes to the Teacher Retirement System of Texas (“TRS”), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. 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 downloading the report from the TRS Internet web site, <http://www.trs.state.tx.us>, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8878, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

Dripping Springs Independent School District

Notes to Basic Financial Statements

10. Defined Benefit Pension Plan Obligations (continued)

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% of the member’s annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation of all members of the system during the fiscal year; (2) state statute prohibits benefit improvements if, as a result of the particular action, the time required to amortize TRS’ unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Contribution 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 employees’ salaries that exceeded the statutory minimum.

Contribution Rates and Amounts					
Year	Member		State		Statutory Minimum Payment Amount
	Rate	Amount	Rate	Amount	Amount
2013	6.400%	\$ 1,533,125	6.400%	\$ 1,152,176	\$ 274,493
2012	6.400%	\$ 1,578,347	6.000%	\$ 1,171,964	\$ 279,152
2011	6.400%	\$ 1,637,781	6.644%	\$ 1,308,825	\$ 315,274

11. Health Care Coverage

Health Insurance Plan

During the year ended June 30, 2013, employees of the District were covered by a health insurance plan (the “Plan”). The District contributed \$225 per month per employee to the Plan for each employee enrolled in the Plan, and employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All contributions were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

Dripping Springs Independent School District

Notes to Basic Financial Statements

11. Health Care Coverage (continued)

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 TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. 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. TRS 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 <http://www.trs.state.tx.us/> under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

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. Funding for free basic coverage is provided by the program based upon public school payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the option coverage. Contribution rates and amounts are shown in the table below for fiscal years 2013-2011.

Contribution Rates and Amounts

<u>Year</u>	<u>Active Member</u>		<u>State</u>		<u>School District</u>	
	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
2013	0.65%	\$ 155,710	0.50%	\$ 111,459	0.55%	\$ 131,752
2012	0.65%	\$ 160,303	1.00%	\$ 195,327	0.55%	\$ 135,638
2011	0.65%	\$ 166,338	1.00%	\$ 196,994	0.55%	\$ 140,746

Dripping Springs Independent School District

Notes to Basic Financial Statements

11. Health Care Coverage (continued)

Medicare Part D

Federal legislation enacted in January 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One provision of the law allows TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible participants. These payments totaled \$92,953, \$55,680, and \$69,079 for fiscal years 2013, 2012, and 2011, respectively.

12. Risk Management

The District's risk management program includes coverages through third-party insurance providers for property, automobile liability, school professional liability, crime, workers' compensation, and other miscellaneous bonds. During the year ended June 30, 2013, there were no significant reductions in insurance coverage from coverage in the prior year. Losses in excess of the various deductible levels are covered through traditional indemnity coverage for buildings and contents and vehicle liability with various insurance firms. Settled claims have not exceeded insurance limits for the past three years.

13. Commitments and Contingencies

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

At June 30, 2013, the District is also committed under construction contracts with a remaining balance of approximately \$490,891.

The District was not involved in any significant litigation during the year ended June 30, 2013.

Dripping Springs Independent School District

Notes to Basic Financial Statements

14. Long-Term Obligations

The following is a summary of changes in long-term obligations for the year ended June 30, 2013, with amounts due within one year as of June 30, 2013.

	<u>June 30, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2013</u>	<u>Amount Due Within One Year</u>
Bonds payable	\$ <u>134,601,643</u>	\$ <u>16,827,611</u>	\$ <u>(24,287,730)</u>	\$ <u>127,141,524</u>	\$ <u>4,190,000</u>
Total noncurrent liabilities	\$ <u><u>134,601,643</u></u>	\$ <u><u>16,827,611</u></u>	\$ <u><u>(24,287,730)</u></u>	\$ <u><u>127,141,524</u></u>	\$ <u><u>4,190,000</u></u>

Required Supplementary Information

Dripping Springs Independent School District

Exhibit G-1 Budgetary Comparison Schedule – General Fund

Year Ended June 30, 2013

		<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With</u>
		<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
REVENUES					
5700	Local and intermediate sources	\$ 27,152,380	\$ 27,752,380	\$ 28,425,853	\$ 673,473
5800	State program revenues	6,072,520	6,072,520	5,698,857	(373,663)
5900	Federal program revenues	10,000	10,000	57,289	47,289
5020	Total revenues	<u>33,234,900</u>	<u>33,834,900</u>	<u>34,181,999</u>	<u>347,099</u>
EXPENDITURES					
Current:					
0011	Instruction	18,316,403	18,316,403	16,618,383	1,698,020
0012	Instructional resources and media services	353,706	353,706	354,834	(1,128)
0013	Curriculum and staff development	353,699	401,699	437,548	(35,849)
0021	Instructional leadership	354,390	354,390	364,446	(10,056)
0023	School leadership	1,720,249	1,720,249	1,720,423	(174)
0031	Guidance, counseling, and evaluation services	725,278	860,078	740,004	120,074
0033	Health services	228,881	228,881	238,243	(9,362)
0034	Student transportation	1,694,666	1,694,666	1,674,442	20,224
0036	Co-curricular/extracurricular activities	1,042,363	1,066,160	1,147,764	(81,604)
0041	General administration	1,213,724	1,344,254	1,408,697	(64,443)
0051	Plant maintenance and operations	5,380,625	5,380,625	4,983,654	396,971
0052	Security and monitoring services	17,498	36,049	81,670	(45,621)
0053	Data processing services	640,878	692,765	655,109	37,656
0061	Community services	-	-	763	(763)
0081	Capital outlay	-	236,808	262,623	(25,815)
Intergovernmental:					
0091	Contracted instructional services between schools	1,900,000	850,000	875,069	(25,069)
0099	Other intergovernmental charges	400,000	400,000	371,954	28,046
6030	Total expenditures	<u>34,342,360</u>	<u>33,936,733</u>	<u>31,935,626</u>	<u>2,001,107</u>
1100	Excess (deficiency) of revenues over (under) expenditures	<u>(1,107,460)</u>	<u>(101,833)</u>	<u>2,246,373</u>	<u>2,348,206</u>
OTHER FINANCING SOURCES (USES)					
7915	Transfers in	-	-	37,915	37,915
8911	Transfers out	(60,000)	(60,000)	(96,726)	(36,726)
7080	Total other financing sources (uses)	<u>(60,000)</u>	<u>(60,000)</u>	<u>(58,811)</u>	<u>1,189</u>
1200	Net change in fund balance	(1,167,460)	(161,833)	2,187,562	2,349,395
0100	Fund balance at beginning of year	<u>18,477,126</u>	<u>18,477,126</u>	<u>18,477,126</u>	<u>-</u>
3000	Fund balance at end of year	<u>\$ 17,309,666</u>	<u>\$ 18,315,293</u>	<u>\$ 20,664,688</u>	<u>\$ 2,349,395</u>

Other Supplementary Information

Dripping Springs Independent School District

Exhibit J-1 Schedule of Delinquent Taxes Receivable

Year Ended June 30, 2013

Last Ten Years Ended June 30	Tax Rates		Assessed/ Appraised Value for School Tax Purposes	Beginning Balance July 1, 2012	Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustment	Ending Balance June 30, 2013
	Maintenance	Debt Service							
2004 and earlier	\$ 1.4500	0.3054	\$ 1,326,290,666	\$ 51,796	\$ -	\$ 28	\$ 6	\$ 116	\$ 51,878
2005	1.4830	0.2635	1,444,776,831	12,545	-	28	5	-	12,512
2006	1.5000	0.3260	1,539,205,516	29,023	-	5,798	1,260	1	21,966
2007	1.3699	0.3102	1,747,299,219	26,283	-	5,617	1,272	(1)	19,393
2008	1.0400	0.3753	2,058,181,008	304,609	-	4,594	1,658	(276,203)	22,154
2009	1.0400	0.4500	2,365,445,495	(93,515)	-	11,961	5,175	147,384	36,733
2010	1.0400	0.4500	2,705,146,498	(51,862)	-	15,613	6,759	119,110	44,876
2011	1.0400	0.4500	2,689,502,236	125,292	-	38,883	16,799	(10,300)	59,310
2012	1.0400	0.4500	2,789,610,899	680,821	-	403,949	173,376	28,662	132,158
2013	1.0400	0.4500	2,852,195,174	-	39,282,440	26,895,402	11,635,639	124	751,523
Totals				\$ 1,084,992	\$ 39,282,440	\$ 27,381,873	\$ 11,841,949	\$ 8,893	\$ 1,152,503

Dripping Springs Independent School District

Exhibit J-2

Schedule of Expenditures for Computation of Indirect Costs – General and Special Revenue Funds

Year Ended June 30, 2013

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt.'s Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
611X-6146	Payroll costs	\$ 6,137	\$ -	\$ 215,745	\$ 744,865	\$ -	\$ -	\$ 966,747
6149	Fringe benefits – unused leave for separating employees in Function 41 and related Function 53	-	-	-	850	-	-	850
6149	Fringe benefits – unused leave for separating employees in all functions except Function 41 and related Function 53	-	-	-	-	-	-	-
6211	Legal services	-	-	163,129	-	-	-	163,129
6212	Audit services	-	-	-	64,700	-	-	64,700
6213	Tax appraisal and collection	-	375,983	-	-	-	-	375,983
621X	Other professional services	-	-	-	4,748	-	-	4,748
6220	Tuition and transfer payments	-	-	-	-	-	-	-
6230	Education service centers	500	-	-	-	-	-	500
6240	Construction, maintenance, and repair	-	-	215	2,566	-	-	2,781
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	1,091	13,245	-	-	14,336
6290	Miscellaneous construction	54,520	-	798	22,654	-	-	77,972
6320	Textbooks and reading	157	-	966	574	-	-	1,697
6330	Testing materials	-	-	-	-	-	-	-
63XX	Other supplies and materials	1,945	-	3,830	31,695	-	-	37,470
6410	Travel, subsistence, and stipends	1,649	-	5,862	8,440	-	-	15,951
6420	Insurance and bonding costs	20,265	255	-	-	-	-	20,520
6430	Election costs	3,312	-	-	-	-	-	3,312
6490	Miscellaneous operating	8,809	-	4,187	17,013	-	-	30,009
6500	Debt service	-	-	-	-	-	-	-
6600	Capital outlay	-	-	-	-	-	-	-
Total		\$ 97,294	\$ 376,238	\$ 395,823	\$ 911,350	\$ -	\$ -	\$ 1,780,705
Total expenditures for General and Special Revenue Funds								(9) \$ 36,764,964
Less deductions of unallowable costs								-
Fiscal Year								
Total capital outlay (6600)						(10) \$ \$ 1,291,042		
Total debt and lease (6500)						(11) \$ -		
Plant maintenance (Function 51, 6100-6400)						(12) \$ 4,711,653		
Food (Function 35, 6341, and 6499)						(13) \$ 875,635		
Stipends (6413)						(14) \$ -		
Column 4 (above) – total indirect cost						<u>\$ 911,350</u>		
Subtotal								<u>7,789,680</u>
Net allowed direct cost								<u>\$ 28,975,284</u>
Cumulative								
Total cost of buildings before depreciation (1520)						(15) \$ 162,857,066		
Historical cost of buildings over 50 years old						(16) \$ 317,825		
Amount of federal money in building cost (net of #16)						(17) \$ -		
Total cost of furniture and equipment before depreciation (1530 and 1540)						(18) \$ 12,175,019		
Historical cost of furniture and equipment over 16 years old						(19) \$ 2,459,368		
Amount of federal money in furniture and equipment (net of #19)						(20) \$ 380,597		

(8) Note A – No Function 53 expenditures are included and \$372,008 in Function 99 expenditures are included in this report on administrative costs.
 Note B – This schedule is included to satisfy Texas Education Agency reporting requirements.

Dripping Springs Independent School District

Exhibit J-4

Budgetary Comparison Schedule – National School Breakfast and Lunch Program

Year Ended June 30, 2013

<u>Data Control Codes</u>	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>	
	<u>Original</u>	<u>Final</u>			
REVENUES					
5700	Local and intermediate sources	\$ 1,700,000	\$ 1,700,000	\$ 1,870,070	\$ 170,070
5800	State program revenues	7,000	7,000	6,420	(580)
5900	Federal program revenues	343,000	343,000	408,933	65,933
5020	Total revenues	<u>2,050,000</u>	<u>2,050,000</u>	<u>2,285,423</u>	<u>235,423</u>
EXPENDITURES					
Current:					
0035	Food service	1,900,000	1,900,000	1,932,318	(32,318)
0051	Plant maintenance and operations	150,000	150,000	-	150,000
6030	Total expenditures	<u>2,050,000</u>	<u>2,050,000</u>	<u>1,932,318</u>	<u>117,682</u>
1200	Net change in fund balance	-	-	353,105	353,105
0100	Fund balance at beginning of year	<u>641,780</u>	<u>641,780</u>	<u>641,780</u>	-
3000	Fund balance at end of year	<u>\$ 641,780</u>	<u>\$ 641,780</u>	<u>\$ 994,885</u>	<u>\$ 353,105</u>

Dripping Springs Independent School District

Exhibit J-5 Budgetary Comparison Schedule – Debt Service Fund

Year Ended June 30, 2013

<u>Data Control Codes</u>	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget</u>	
	<u>Original</u>	<u>Final</u>			
REVENUES					
5700	Local and intermediate sources	\$ 11,557,568	\$ 11,557,568	\$ 11,933,723	\$ 376,155
5020	Total revenues	<u>11,557,568</u>	<u>11,557,568</u>	<u>11,933,723</u>	<u>376,155</u>
EXPENDITURES					
0071	Principal on long-term debt	4,525,000	4,525,000	4,525,000	-
0072	Interest on long-term debt	6,091,000	6,091,000	6,091,000	-
0073	Other debt service	20,000	20,000	234,903	(214,903)
6030	Total expenditures	<u>10,636,000</u>	<u>10,636,000</u>	<u>10,850,903</u>	<u>(214,903)</u>
1100	Excess of revenues over expenditures	<u>921,568</u>	<u>921,568</u>	<u>1,082,820</u>	<u>161,252</u>
OTHER FINANCING SOURCES (USES)					
7911	Refunding bonds issued	-	-	15,500,000	15,500,000
7916	Premium on issuance of bonds	-	-	1,309,706	1,309,706
8949	Payment to bond refunding escrow agent	-	-	(18,774,258)	(18,774,258)
7080	Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(1,964,552)</u>	<u>(1,964,552)</u>
1200	Net change in fund balance	921,568	921,568	(881,732)	(1,803,300)
0100	Fund balance at beginning of year	<u>9,284,027</u>	<u>9,284,027</u>	<u>9,284,027</u>	<u>-</u>
3000	Fund balance at end of year	<u>\$ 10,205,595</u>	<u>\$ 10,205,595</u>	<u>\$ 8,402,295</u>	<u>\$ (1,803,300)</u>

Federal Awards Section

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
Dripping Springs Independent School District
Dripping Springs, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Dripping Springs Independent School District (the "District"), as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 5, 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 to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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, grant agreements, and the Public Funds Investment Act, 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* or the Public Funds Investment Act.

Purpose of This Report

This 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.

Pudgett, Stratemann + Co., LLP

Certified Public Accountants
Austin, Texas
November 5, 2013

Independent Auditor's Report on Compliance
For Each Major Federal Program and on Internal Control
Over Compliance in Accordance with OMB Circular A-133

To the Board of Trustees
Dripping Springs Independent School District
Dripping Springs, Texas

Report on Compliance for Each Major Federal Program

We have audited Dripping Springs Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2013. The District's major federal program is 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 the District's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 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 a 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 compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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.

Padgett, Stratemann + Co., LLP

Certified Public Accountants
Austin, Texas
November 5, 2013

Dripping Springs Independent School District

Schedule of Findings and Questioned Costs

Year Ended June 30, 2013

Section I – Summary of Auditor’s Results

1. Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiency(ies) identified? Yes X None Reported

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

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? Yes X No

Identification of major program:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.410A	Education Jobs Fund – ARRA

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes No

Section II – General Purpose Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

No matters were reported.

Dripping Springs Independent School District

Summary Schedule of Prior Audit Findings

Year Ended June 30, 2013

Finding 2012-01: Year-End General Ledger Closing Procedures

Type of Finding: Significant Deficiency

Criteria: The year-end general ledger closing process is an integral part of the accurate and timely financial reporting function, which is required to effectively manage and guide an organization.

Condition: The District did not have formal, documented year-end closing procedures as of June 30, 2012. At the agreed date of starting our 2012 audit, the District had not performed the year-end general ledger closing process and, as a result, several errors were noted in the initial general ledger provided by the District, including:

- a. Special Revenue Funds – these funds are primarily used by the District to account for the proceeds of specific revenue sources related to federal grants. These grants operate on a reimbursement basis. Other than food service, these funds should not have a fund balance. The preliminary 2012 general ledger provided by the District reflected erroneous fund balances for six of the District’s special revenue funds.
- b. Year-end adjustments necessary to properly account for property taxes were not recorded causing errors in the following accounts: property tax receivable, property tax allowance, and deferred revenue.
- c. The District issued two series of bonds in fiscal year 2012. The general ledger did not properly reflect the sources and uses of these transactions in accordance with generally accepted accounting principles and the Financial Accountability Resource Guide.
- d. The General Fixed Asset Account Group balances in the general ledger (Fund 902) provided to us had not been updated since June 30, 2011; no 2012 activity had been recorded. Year-end adjustments were necessary to properly account for capital asset activity (e.g., additions, transfers out of construction in progress, and current year depreciation amounts).
- e. Journal entries were recorded during fiscal year 2012 in an inactive fund (Fund 313). Because this fund is a Special Revenue Fund, these expenditures were reflected on the initial schedule of expenditures of federal awards provided by the District. The schedule of expenditures of federal awards is a supplemental schedule that is not a required part of the basic financial statements, but is presented in the annual financial statements as required by OMB Circular A-133.

Dripping Springs Independent School District

Summary Schedule of Prior Audit Findings

(Continued)

Year Ended June 30, 2013

Recommendation: We recommend the District follow certain procedures each fiscal year-end in order to close out the fiscal year's general ledger and prepare the annual financial report. We recommend the year-end general ledger closing procedures should:

- Be formally documented to reduce the risk of loss of institutional knowledge with personnel turnover or temporary absence from work.
- Include an exhaustive list of tasks required to be completed, along with personnel assignments and deadlines.
- Be performed on a monthly or quarterly basis in order to reduce the fiscal year-end workload.
- Any and all post-closing adjustments to the trial balance should be reviewed for accuracy by management prior to posting by accounting staff.

Status: Corrected.

The District performed year-end close procedures following changes in District personnel. A formal year-end close procedures manual is being developed. As a part of this manual, the trial balance will be reviewed on a quarterly basis to enhance the procedures. Job responsibilities have also been restructured.

Dripping Springs Independent School District

Corrective Action Plan

Year Ended June 30, 2013

Program

None

Corrective Action Plan

No current year findings.

Dripping Springs Independent School District

Exhibit K-1

Schedule of Expenditures of Federal Awards

Year Ended June 30, 2013

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures, Including Indirect Costs</u>
<u>United States Department of Education:</u>			
Passed Through Texas Education Agency:			
ESEA Title I, Part A, Improving Basic Programs	84.010A	13610101105904	\$ 249,876
IDEA – Part B, Formula	84.027A	136600011059046600	767,159
IDEA - Part B, High Cost Pool	84.027A	136600061059046680	3,289
Career and Technical – Basic Grant	84.048A	13420006105904	35,356
IDEA – Part B, Preschool	84.173A	136610011059046610	7,172
Title III, Part A – English Language Acquisition	84.365A	13671001105904	21,485
ESEA Title II, Part A – Teacher/Principal Training	84.367A	13694501105904	43,609
Summer School LEP	84.369A	69551002105904	2,149
Summer School LEP	84.369A	69551102105904	2,220
Summer School LEP	84.369A	69551202105904	3,346
Education Jobs Fund – ARRA	84.410A	11550101105904	<u>688,836</u>
Total Passed Through Texas Education Agency			<u>1,824,497</u>
Total United States Department of Education			<u>1,824,497</u>
<u>United States Department of Agriculture:</u>			
Passed Through the State Department of Agriculture:			
National School Breakfast Program	10.553	71401301	68,585
National School Lunch Program – Cash Assistance	10.555	71301301	275,290
National School Lunch Program – Noncash Assistance	10.555	71301301	<u>65,058</u>
Total Passed Through the State Department of Agriculture			<u>408,933</u>
Total United States Department of Agriculture			<u>408,933</u>
Total Expenditures of Federal Awards			<u>\$ 2,233,430</u>

Dripping Springs Independent School District

Note to the Schedule of Expenditures of Federal Awards

1. Summary of Significant Accounting Policies

General – The accompanying schedule of expenditures of federal awards presents all federal expenditures of the District.

Basis of Accounting – The expenditures on the accompanying Schedule of Expenditures of Federal Awards are presented using the modified accrual basis of accounting, with the exception of the National School Lunch Program, National School Breakfast Program, and the USDA-Donated Foods Program. Under the modified accrual basis of accounting, revenue is recognized in the accounting period in which it becomes available and measurable, and expenditures in the accounting period in which the fund liability is incurred, if measurable. Expenditures in the National School Lunch Program, National School Breakfast Program, and the USDA-Donated Foods Program are not specifically attributable to this revenue source and are shown on the accompanying schedule of expenditures of federal awards in an amount equal to revenue for balancing purposes only.

Relationship to Basic Financial Statements – Expenditures of federal awards are reported in the District's basic financial statements in the Special Revenue Funds.

Relationship to Federal Financial Reports – Amounts reported in the accompanying Schedule of Expenditures of Federal Awards agree with the amounts reported in the related federal financial reports in all significant respects.

Valuation of Noncash Programs – The District values revenues and expenditures for the USDA-Donated Foods Program based on the value of commodities received.

Dripping Springs Independent School District

Exhibit L-1 - Required Responses to Selected School First Indicators

As of June 30, 2013

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end	\$ 85,929

Note: This schedule is to be included in the flat file sent to TEA but not published as part of the District's paper audit. It shall also be included in the Adobe Acrobat .pdf searchable electronic version of the audit.