

EUSTACE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2008

EUSTACE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2008

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	Table of Contents	1
	Certificate of Board	3
	Independent Auditor's Report	4
	Management's Discussion and Analysis	6
	Basic Financial Statements:	
	Government - Wide Financial Statements:	
A-1	Statement of Net Assets	13
B-1	Statement of Activities	14
	Governmental Fund Financial Statements:	
C-1	Balance Sheet	15
C-2	Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	16
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balances	17
C-4	Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
C-5	Budgetary Comparison Schedule - General Fund	19
	Proprietary Fund Financial Statements:	
D-1	Statement of Net Assets	N/A
D-2	Statement of Revenues, Expenses, and Changes in Fund Assets	N/A
D-3	Statement of Cash Flows	N/A
	Fiduciary Fund Financial Statements:	
E-1	Statement of Fiduciary Net Assets	20
E-2	Statement of Changes in Fiduciary Net Assets	21
	Notes to the Financial Statements	22
	Combining Statements:	
	Nonmajor Governmental Funds:	
H-1	Combining Balance Sheet	44
H-2	Combining Statement of Revenues, Expenditures and Changes in Fund Balances	46

EUSTACE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2008

TABLE OF CONTENTS, CONTINUED

<u>Exhibit</u>		<u>Page</u>
 Required TEA Schedules:		
J-1	Schedule of Delinquent Taxes Receivable	48
J-2	Schedule of Expenditures for Computation of Indirect Cost	49
J-3	Fund Balance and Cash Flow Calculation Worksheet	50
J-4	Budgetary Comparison Schedule - Child Nutrition Fund	51
J-5	Budgetary Comparison Schedule - Debt Service Fund	52
 Compliance, Internal Control and Federal Awards:		
	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	53
	Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	55
	Schedule of Findings and Questioned Costs	57
	Schedule of Status of Prior Findings	60
	Corrective Action Plan	61
K-1	Schedule of Expenditures of Federal Awards	62
	Notes to the Schedule of Expenditures of Federal Awards	63

CERTIFICATE OF BOARD

Eustace Independent School District
Name of School District

Henderson
County

107-905
Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and _____ approved _____ disapproved for the year ended August 31, 2008 at a meeting of the board of school trustees of such school district on the _____ day of _____, 2009.

Signature of Board Secretary

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)

SMITH, LAMBRIGHT & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA
J. W. Lambright, CPA

Cheri E. Kirkland, CPA

P. O. Box 912
505 E. Tyler
Athens, Texas 75751
(903) 675-5674
FAX (903) 675-5676
smithlambright.com

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

Independent Auditor's Report

Board of School Trustees
Eustace Independent School District
P. O. Box 188
Eustace, Texas 75124

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Eustace Independent School District (the "District"), as of and for the year ended August 31, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2008, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

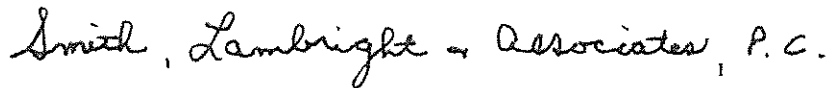
In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 2009 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

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

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are 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 U.S. Office of Management and Budget *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the District. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

Respectfully submitted,



SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants

January 30, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS



EUSTACE INDEPENDENT SCHOOL DISTRICT

COY HOLCOMBE
Superintendent

JANICE BEASLEY
*Director of
Curriculum and
Instruction*

Highway 316 South • P.O. Box 188
Eustace, Texas 75124
(903) 425-5151
FAX: (903) 425-5147

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Eustace Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2008. Please read it in conjunction with the independent auditors' report, and the District's Basic Financial Statements.

Financial Highlights

Over the course of this year's operations, the District's total net assets increased to \$14,916,049

During the year, the District's total expenditures of the governmental funds were greater than the total revenue by \$2,681,513 primarily due to capital project expenditures of \$3,050,713 in Fund 699. This compares to last year when expenses were less than revenues by \$190,206.

The General Fund ended the year with a fund balance of \$5,981,940.

The resources available for appropriation were \$31,128 more than budgeted for the General Fund.

Expenditures were overall under budgeted appropriations.

Using the Annual Report

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

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

The fiduciary statements provide financial information concerning activities for which the District acts as trustee only.

Notes to the financial statements provide narrative explanations of additional information to assist in clarification and complete understanding of the combined financial statements.

The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring and regulatory agencies for assurance that the District is using funds in compliance with the terms of grants.

Reporting the District as a Whole

Statement of Net Assets and Statement of Activities

This section of the financial reports provides an analysis of the District's overall financial condition and operations. Its primary purpose is to show whether the District's financial position is better or worse as a result of the years' activities. The Statement of Net Assets includes the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. The accrual basis of accounting is applied to these activities.

The revenues are divided into those provided by grants and revenues provided by taxpayers or TEA. All District assets and liabilities are reported in this section, regardless of life or service; (current/future).

The net assets of the District provide one measure of the District's financial health. A District whose net assets are increasing over time is one with improving financial health. Another measure of the overall health of the District is reflected in changes in average daily attendance, condition of facilities, and the property tax base.

The Statement of Net Assets and the Statement of Activities divide the District into 2 types of activities.

Governmental activities report most of the District's basic services, including instruction, counseling, co-curricular activities, food services, transportation, maintenance, and general administration. Property taxes, fees, state revenue, and federal grants finance most of these activities.

Trust/Fiduciary activities include student activities, scholarship fund and clearing funds. The District acts as steward of these funds.

Reporting the District's Most Significant Funds

Fund Financial Statements

The most significant funds of the District are included in this section. The district is required to establish separate funds for grants. It also maintains separate funds to help control and manage funds for particular purposes such as campus activities, food services and debt service.

Governmental Funds

Most of the district's basic services are reported in governmental funds. The modified accrual basis of accounting is used to report these activities. This method of accounting measures the receipt and disbursement of cash and financial assets that can be readily converted to cash. Governmental fund statements provide a detailed short-term view of the district's general operations and basic services provided.

Budgeted Special Revenue Funds

These categories of funds include Food Service, Title VI, Pre K, Title I Part A, Title VI Part B, Title VI, Title VI Class Room Reduction, Extended Year, Technology Fund, and Campus Activities. These groups of funds have revenue resources including grants, federal programs, shared services arrangements, and state programs.

Debt Service Funds

The Debt Service fund accounts for bonded debt payments and tax revenues that fund the debt.

The District as Trustee

All the fiduciary activities of the District are reported in separate Statements of Agency Funds. These resources are excluded from the District's other financial statements because the District cannot use these assets to finance operation. Its only responsibility in the disbursing of these funds is to ensure the assets are used for the intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the District's governmental and business-type activities.

Net assets of the District's governmental activities decreased from \$16,996,096 to \$14,916,049. Unrestricted net assets — the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements were \$7,299,181. This decrease in governmental net assets was the result of three factors. First, the District's expenditures exceeded the revenues by about (\$2,080,047). Second the district paid bonds and other long-term debt in the amount of \$435,000 and acquired capital assets in the amount of \$2,681,513. Third, the District recorded depreciation of, \$481,020.

To compensate for some of the cost increases this year and to avoid the loss of State funds, the District took the following actions.

- Budget adjusted throughout the school year because of decreased enrollment.
- Most of the remodeling projects were completed by the District's staff, which resulted in considerable savings.
- The District filed an audit of our taxable valuations

The cost of all governmental activities this year was \$14,271,755 compared to \$13,714,861 last year. However, as shown in the Statement of Activities the amount that our taxpayers ultimately financed for these activities through District taxes was only \$5,128,982 because some of the costs were paid by those who directly benefited from the programs or by other governments and organizations that subsidized certain programs with grants and contributions or by State equalization funding.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet) reported a combined fund balance of \$10,444,167 which is lower than last year's total of \$13,335,410

Several times during the course of the year; the District's budget was revised by the Board of Trustees. These budget amendments fall into two categories. The first category includes increases or decreases in revenues or funding. The second category involved amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of the school year, the District reported \$17,563,077 in net capital assets. These assets include all vehicles, facilities, and equipment. This amount represents a net increase of \$381,302 as compared to last year.

The additions to capital assets during the year were computer software, improvements to the network system for the district, security systems and cameras, laptops for teachers, band instruments, computers, new vehicle, new bus, capital improvement projects.

Debt

The District has an outstanding amount of \$14,405,000 in bonded debt at year-end.

Economic Factors and Next Year's Budget Rate

The budget for 2007-08 was based on many factors:

- (1) Increased interest rates on investments
- (2) Increase in property values
- (3) Updating transportation equipment
- (4) Increased cost of campus copiers
- (5) Increased salaries
- (6) Increased supply budget for all campuses
- (7) Increase in utilities
- (8) Increase in fuel costs

The unemployment rate for the area register below the state average; however the district has higher than average number of low-income families. Senior citizens who carry the Over-65 Homestead exemption comprise a large percentage of the Districts population.

When the 2007-2008 budget was adopted, all these indicators were considered. The current budget reflects a 4.1% increase over last year's total.

Revenue resources for the 2007-2008 budget are from property tax collections and local sources.

- Local - 42%
- State - 58%

Contacting the District's Financial Management

This report is intended to assist citizens, taxpayers, investors, and creditors with the understanding of the financial status of the Eustace Independent School District—how resources are managed and the accountability for funds received. If you have any questions concerning the report or need additional information, contact the District's business office as Eustace I.S.D, PO Box 188, Eustace, TX 75124.

Eustace Independent School District
Table I
Net Assets

Governmental Activities	2007	2008
Current and Other Assets	\$15,402,482.00	\$12,912,729.00
Capital Assets	<u>\$17,181,775.00</u>	<u>\$17,563,077.00</u>
Total Assets	<u>\$32,584,257.00</u>	<u>\$30,475,806.00</u>
Current Liabilities	\$748,161.00	\$1,154,757.00
Long Term Liabilities	<u>\$14,841,000.00</u>	<u>\$14,405,000.00</u>
Total Liabilities	<u>\$15,589,161.00</u>	<u>\$15,559,757.00</u>
Investment in Capital Assets	\$2,346,078.00	\$3,154,641.00
Restricted Federal & State Programs	\$64,497.00	\$129,021.00
Restricted for Debt Service	\$284,854.00	\$358,084.00
Restricted for Capital Projects	\$6,777,680.00	\$3,946,039.00
Restricted for Other Purposes	\$47,837.00	\$29,083.00
Unrestricted Assets	<u>\$7,475,150.00</u>	<u>\$7,299,181.00</u>
Total Net Assets	<u>\$16,996,096.00</u>	<u>\$14,916,049.00</u>

Eustace Independent School District

Table II
Statement of Activities

Primary Government

Governmental Activities

	2007	2008
Program Revenues		
Charges for Services	\$463,758.00	\$401,271.00
Operating Grants & Contributions	\$1,554,121.00	\$1,646,644.00
Total Program Revenues	<u>\$2,017,879.00</u>	<u>\$2,047,915.00</u>

Expenses

Instructional, Curriculum, Media	\$7,446,622.00	\$7,961,741.00
Instructional / School Leadership	\$899,150.00	\$891,754.00
Student Support Services	\$847,475.00	\$915,865.00
Child Nutrition	\$717,826.00	\$726,931.00
Co-Curricular Activities	\$784,439.00	\$673,494.00
General Administration	\$545,844.00	\$544,908.00
Plant Maintenance, Security, Data Processing	\$1,269,439.00	\$1,279,647.00
Debit Services	\$602,595.00	\$657,341.00
Facilities Acquisition & Construction	\$261,669.00	\$146,704.00
Intergovernmental Charges	\$339,802.00	\$473,370.00
Total Expenses	<u>\$13,714,861.00</u>	<u>\$14,271,755.00</u>

General Revenues

	2007	2008
Maintenance & Operating Taxes	\$4,890,610.00	\$4,246,967.00
Debt Service Taxes	\$701,992.00	\$882,015.00
State Aide - Formula Grants	\$4,944,036.00	\$6,166,807.00
Unrestricted Grants / Contributions	\$153,313.00	\$285,873.00
Investment Earnings	\$913,709.00	\$482,307.00
Miscellaneous Revenue	\$283,528.00	\$34,838.00
Special Item - (Use)	\$0.00	(\$1,955,015.00)
Total General Revenue	<u>\$11,887,188.00</u>	<u>\$10,143,792.00</u>

Change in Net Assets	\$190,206	(\$2,080,047)
-----------------------------	------------------	----------------------

Net Assets - Beginning	<u>\$16,805,890</u>	<u>\$16,996,096</u>
-------------------------------	----------------------------	----------------------------

Net Assets - Ending	\$16,996,096	\$14,916,049
----------------------------	---------------------	---------------------

BASIC FINANCIAL STATEMENTS

EUSTACE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2008

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 532,003
1120 Current Investments	9,514,132
1220 Property Taxes Receivable (Delinquent)	1,415,707
1230 Allowance for Uncollectible Taxes	(70,785)
1240 Due from Other Governments	1,207,722
1420 Capitalized Bond and Other Debt Issuance Costs	313,950
Capital Assets:	
1510 Land	69,490
1520 Buildings, Net	15,193,543
1530 Furniture and Equipment, Net	715,887
1580 Construction in Progress	1,584,157
1000 Total Assets	30,475,806
LIABILITIES	
2110 Accounts Payable	10,761
2150 Payroll Deductions & Withholdings	41,091
2160 Accrued Wages Payable	251,440
2200 Accrued Expenses	27,680
2300 Deferred Revenues	506,399
2440 Premium on Issuance of Bonds	317,386
Noncurrent Liabilities	
2501 Due Within One Year	440,000
2502 Due in More Than One Year	13,965,000
2000 Total Liabilities	15,559,757
NET ASSETS	
3200 Invested in Capital Assets, Net of Related Debt	3,154,641
3820 Restricted for Federal and State Programs	129,021
3850 Restricted for Debt Service	358,084
3860 Restricted for Capital Projects	3,946,039
3870 Restricted for Campus Activities	29,083
3900 Unrestricted Net Assets	7,299,181
3000 Total Net Assets	\$ 14,916,049

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

EUSTACE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2008

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
		Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 7,620,951	\$ 3,416	\$ 969,888	\$ (6,647,647)
12 Instructional Resources and Media Services	197,405	-	3,861	(193,544)
13 Curriculum and Instructional Staff Development	143,385	-	4,678	(138,707)
21 Instructional Leadership	88,503	-	685	(87,818)
23 School Leadership	803,251	-	39,537	(763,714)
31 Guidance, Counseling and Evaluation Services	296,683	-	13,374	(283,309)
32 Social Work Services	29,622	-	150	(29,472)
33 Health Services	101,976	-	5,361	(96,615)
34 Student (Pupil) Transportation	487,584	-	12,395	(475,189)
35 Food Services	726,931	190,548	543,587	7,204
36 Extracurricular Activities	673,494	207,057	9,629	(456,808)
41 General Administration	544,908	-	13,724	(531,184)
51 Plant Maintenance and Operations	1,038,615	250	23,852	(1,014,513)
52 Security and Monitoring Services	34,672	-	300	(34,372)
53 Data Processing Services	206,360	-	5,624	(200,736)
72 Debt Service - Interest on Long Term Debt	648,170	-	-	(648,170)
73 Debt Service - Bond Issuance Cost and Fees	9,171	-	-	(9,171)
81 Facilities Acquisition and Construction	146,704	-	-	(146,704)
93 Payments to Fiscal Agent/Member Districts of SSA	473,370	-	-	(473,370)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 14,271,755	\$ 401,271	\$ 1,646,644	(12,223,840)
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			4,246,967
DT	Property Taxes, Levied for Debt Service			882,015
SF	State Aid - Formula Grants			6,166,807
GC	Grants and Contributions not Restricted			285,873
IE	Investment Earnings			482,307
MI	Miscellaneous Local and Intermediate Revenue			34,838
S2	Special Item - See Note IV F			(1,955,015)
TR	Total General Revenues and Special Items			10,143,792
CN	Change in Net Assets			(2,080,047)
NB	Net Assets--Beginning			16,996,096
NE	Net Assets--Ending			\$ 14,916,049

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

EUSTACE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2008

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 826,448	\$ 28,023	\$ (468,551)
1120 Investments - Current	4,835,487	264,055	4,414,590
1220 Property Taxes - Delinquent	1,275,900	139,807	-
1230 Allowance for Uncollectible Taxes (Credit)	(63,795)	(6,990)	-
1240 Due from Other Governments	1,172,433	-	-
1260 Due from Other Funds	-	99,526	-
1000 Total Assets	<u>\$ 8,046,473</u>	<u>\$ 524,421</u>	<u>\$ 3,946,039</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2110 Accounts Payable	\$ 10,761	\$ -	\$ -
2150 Payroll Deductions and Withholdings Payable	41,091	-	-
2160 Accrued Wages Payable	228,385	-	-
2170 Due to Other Funds	99,526	-	-
2300 Deferred Revenues	1,684,770	166,337	-
2000 Total Liabilities	<u>\$ 2,064,533</u>	<u>\$ 166,337</u>	<u>\$ -</u>
Fund Balances:			
Reserved For:			
3420 Retirement of Long Term Debt	\$ -	\$ 358,084	\$ -
3450 Food Service	-	-	-
3490 Other Purposes	-	-	-
Unreserved Designated For:			
3510 Construction	4,738,497	-	-
Unreserved and Undesignated:			
3600 Reported in the General Fund	1,243,443	-	-
3620 Reported in Capital Projects Funds	-	-	3,946,039
3000 Total Fund Balances	<u>\$ 5,981,940</u>	<u>\$ 358,084</u>	<u>\$ 3,946,039</u>
4000 Total Liabilities and Fund Balances	<u>\$ 8,046,473</u>	<u>\$ 524,421</u>	<u>\$ 3,946,039</u>

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

Other Funds	Total Governmental Funds
\$ 146,083	\$ 532,003
-	9,514,132
-	1,415,707
-	(70,785)
35,289	1,207,722
-	99,526
<u>\$ 181,372</u>	<u>\$ 12,698,305</u>
\$ -	\$ 10,761
-	41,091
23,055	251,440
-	99,526
213	1,851,320
<u>\$ 23,268</u>	<u>\$ 2,254,138</u>
\$ -	\$ 358,084
113,538	113,538
44,566	44,566
-	4,738,497
-	1,243,443
-	3,946,039
<u>\$ 158,104</u>	<u>\$ 10,444,167</u>
<u>\$ 181,372</u>	<u>\$ 12,698,305</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS

AUGUST 31, 2008

Total Fund Balances - Governmental Funds \$ 10 444 167

**Amounts reported for governmental activities in the
 Statement of Net Assets are different because:**

Data
 Control
 Codes

- | | |
|---|---------------|
| 1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$23,809,904 and the accumulated depreciation was \$6,628,129. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The long-term debt was \$14,840,000. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets. | 2 341 775 |
| 2 Other assets and liabilities related to long-term debt issuance are not reported in the governmental funds. At the beginning of the year, assets included unamortized debt issuance cost of \$336,481, and the liabilities included unamortized premium on issuance of debt of \$332,177. The net effect of these debt issuance assets and liabilities is to increase net assets. | 4 304 |
| 3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2008 capital outlays and debt principal payments is to increase net assets. | 3 446 112 |
| 4 The 2008 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets. | (674 795) |
| 5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net assets. | (645 514) |
| 19 Net Assets of Governmental Activities | \$ 14 916 049 |

The accompanying notes are an integral part of this statement.

EUSTACE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2008

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 4,731,908	\$ 945,676	\$ 219,072
5800 State Program Revenues	6,622,275	212,905	-
5900 Federal Program Revenues	71,237	-	-
5020 Total Revenues	<u>11,425,420</u>	<u>1,158,581</u>	<u>219,072</u>
EXPENDITURES:			
Current:			
0011 Instruction	6,521,562	-	-
0012 Instructional Resources and Media Services	171,763	-	-
0013 Curriculum and Instructional Staff Development	139,644	-	-
0021 Instructional Leadership	88,503	-	-
0023 School Leadership	790,025	-	-
0031 Guidance, Counseling and Evaluation Services	291,296	-	-
0032 Social Work Services	29,472	-	-
0033 Health Services	98,139	-	-
0034 Student (Pupil) Transportation	501,622	-	-
0035 Food Services	-	-	-
0036 Extracurricular Activities	514,643	-	-
0041 General Administration	540,252	-	-
0051 Facilities Maintenance and Operations	1,028,830	-	-
0052 Security and Monitoring Services	34,672	-	-
0053 Data Processing Services	170,499	-	-
Debt Service:			
0071 Debt Service - Principal on Long Term Debt	-	435,000	-
0072 Debt Service - Interest on Long Term Debt	-	648,920	-
0073 Debt Service - Bond Issuance Cost and Fees	-	1,431	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	3,050,713
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	473,370	-	-
6030 Total Expenditures	<u>11,394,292</u>	<u>1,085,351</u>	<u>3,050,713</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>31,128</u>	<u>73,230</u>	<u>(2,831,641)</u>
OTHER FINANCING SOURCES (USES):			
8949 Other (Uses)	(209,730)	-	-
7080 Total Other Financing Sources (Uses)	<u>(209,730)</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balances	(178,602)	73,230	(2,831,641)
0100 Fund Balance - September 1 (Beginning)	<u>6,160,542</u>	<u>284,854</u>	<u>6,777,680</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 5,981,940</u>	<u>\$ 358,084</u>	<u>\$ 3,946,039</u>

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

	Other Funds	Total Governmental Funds
\$	358,589	\$ 6,255,245
	298,817	7,133,997
	894,090	965,327
	<u>1,551,496</u>	<u>14,354,569</u>
	636,491	7,158,053
	-	171,763
	3,741	143,385
	-	88,503
	-	790,025
	4,240	295,536
	150	29,622
	1,475	99,614
	-	501,622
	676,389	676,389
	153,520	668,163
	-	540,252
	-	1,028,830
	-	34,672
	29,720	200,219
	-	435,000
	-	648,920
	-	1,431
	-	3,050,713
	-	473,370
	<u>1,505,726</u>	<u>17,036,082</u>
	45,770	(2,681,513)
	-	(209,730)
	-	(209,730)
	45,770	(2,891,243)
	<u>112,334</u>	<u>13,335,410</u>
\$	<u>158,104</u>	<u>\$ 10,444,167</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 TO THE STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2008

Total Net Change in Fund Balances - Governmental Funds \$ (2 891 243)

**Amounts reported for governmental activities in the
 Statement of Activities are different because:**

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2008 capital outlays and debt principal payments is to increase net assets. 3 446 112

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets. (674 795)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net assets. (1 960 121)

Change in Net Assets of Governmental Activities \$ (2 080 047)

The accompanying notes are an integral part of this statement.

EUSTACE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2008

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 5,199,354	\$ 4,929,342	\$ 4,731,908	\$ (197,434)
5800	State Program Revenues	6,099,499	6,338,153	6,622,275	284,122
5900	Federal Program Revenues	-	-	71,237	71,237
5020	Total Revenues	11,298,853	11,267,495	11,425,420	157,925
EXPENDITURES:					
Current:					
0011	Instruction	6,270,178	6,358,739	6,521,562	(162,823)
0012	Instructional Resources and Media Services	178,887	178,887	171,763	7,124
0013	Curriculum and Instructional Staff Development	147,304	147,304	139,644	7,660
0021	Instructional Leadership	93,638	93,638	88,503	5,135
0023	School Leadership	796,159	796,159	790,025	6,134
0031	Guidance, Counseling and Evaluation Services	296,005	296,005	291,296	4,709
0032	Social Work Services	33,233	33,233	29,472	3,761
0033	Health Services	102,400	102,400	98,139	4,261
0034	Student (Pupil) Transportation	513,425	513,425	501,622	11,803
0036	Extracurricular Activities	562,156	562,156	514,643	47,513
0041	General Administration	594,590	594,590	540,252	54,338
0051	Facilities Maintenance and Operations	1,174,198	1,174,198	1,028,830	145,368
0052	Security and Monitoring Services	40,591	40,591	34,672	5,919
0053	Data Processing Services	188,246	188,246	170,499	17,747
Capital Outlay:					
0081	Facilities Acquisition and Construction	603	603	-	603
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	480,070	480,070	473,370	6,700
6030	Total Expenditures	11,471,683	11,560,244	11,394,292	165,952
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(172,830)	(292,749)	31,128	323,877
OTHER FINANCING SOURCES (USES):					
8949	Other (Uses)	-	-	(209,730)	(209,730)
7080	Total Other Financing Sources (Uses)	-	-	(209,730)	(209,730)
1200	Net Change in Fund Balances	(172,830)	(292,749)	(178,602)	114,147
0100	Fund Balance - September 1 (Beginning)	6,160,542	6,160,542	6,160,542	-
3000	Fund Balance - August 31 (Ending)	\$ 5,987,712	\$ 5,867,793	\$ 5,981,940	\$ 114,147

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

EUSTACE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2008

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and Cash Equivalents	\$ (52,976)	\$ 38,859
Investments - Current	57,960	-
Total Assets	<u>4,984</u>	<u>\$ 38,859</u>
LIABILITIES		
Due to Student Groups	-	\$ 38,859
Total Liabilities	<u>-</u>	<u>\$ 38,859</u>
NET ASSETS		
Restricted for Other Purposes	<u>4,984</u>	
Total Net Assets	<u>\$ 4,984</u>	

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

EUSTACE INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY FUND NET ASSETS
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2008

	Private Purpose Trust Fund
ADDITIONS:	
Local and Intermediate Sources	\$ 214,543
Total Additions	<u>214,543</u>
DEDUCTIONS:	
Professional and Contracted Services	1,240
Supplies and Materials	178,519
Other Operating Costs	29,800
Total Deductions	<u>209,559</u>
Change in Net Assets	4,984
Total Net Assets - September 1 (Beginning)	<u>-</u>
Total Net Assets - August 31 (Ending)	<u><u>\$ 4,984</u></u>

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

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The Board of Trustees (the “Board”) is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board (“GASB”) in its Statement No. 14, “The Financial Reporting Entity.” There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the District’s nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

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

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

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

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

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

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

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

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

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

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

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

D. FUND ACCOUNTING

The District reports the following fund types:

Governmental Funds:

1. **General Fund** - The general fund is the District's primary operating fund and is always reported as a major fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Special Revenue Funds** - The District accounts for resources restricted to, or designated for specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
3. **Debt Service Fund** - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.
4. **Capital Projects Fund** - The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Fiduciary Funds:

5. **Private Purpose Trust Funds** - The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit the District. The District's Private Purpose Trust Fund is the Murchison Foundation Donation Fund.
6. **Agency Fund** - The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the student activity fund.

E. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows for proprietary and similar fund-types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

F. INVENTORIES

The District records purchases of supplies as expenditures.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENT
YEAR ENDED AUGUST 31, 2008

G. CAPITAL ASSETS

Capital assets, which include land, buildings, furniture and equipment are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Buildings, furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Vehicles	10
Furniture and Equipment	5 - 10

H. LONG TERM DEBT

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

I. RESERVED AND/OR DESIGNATED FUND BALANCES

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

J. RESTRICTED ASSETS

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

K. DATA CONTROL CODES

The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide data base for policy development and funding plans.

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2008

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets at the Beginning of the year</u>	<u>Historical Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Assets</u>
Land	\$ 69 490	\$	\$ 69 490	
Buildings & Improvements	21 620 093	5 560 721	16 059 372	
Furniture & Equipment	1 819 236	1 067 408	751 828	
Construction in Progress	<u>301 085</u>		<u>301 085</u>	
Totals	<u>\$ 23 809 904</u>	<u>\$ 6 628 129</u>		
Change in Net Assets				\$ 17 181 775
<u>Long-term Liabilities at the Beginning of the year</u>			<u>Payable at the Beginning of the Year</u>	
Bonds Payable			<u>\$ 14 840 000</u>	
Change in Net Assets				<u>14 840 000</u>
Net Adjustment to Net Assets				<u>\$ 2 341 775</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

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

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

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
Current Year Capital Outlay:			
Buildings & Improvements	\$ 1 319 852	\$	\$
Furniture & Equipment	107 103		
Construction in Progress	<u>1 584 157</u>		
Total Capital Outlay	<u>3 011 112</u>	<u>3 011 112</u>	<u>3 011 112</u>
Debt Principal Payments:			
Bond Principal	<u>435 000</u>		
Total Principal Payments	<u>\$ 435 000</u>	<u>435 000</u>	<u>435 000</u>
Total Adjustment to Net Assets		<u>\$ 3 446 112</u>	<u>\$ 3 446 112</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

C. EXPLANATION OF OTHER DIFFERENCES

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

	Amount	Adjustments to Change in Net Assets	Adjustments to Net Assets
Adjustments to Revenue and Deferred Revenue:			
Taxes Collected from Prior Year Levies	\$ 271 446	\$ (271 446)	\$
Uncollected taxes (assumed collectible) from Current Year Levy	273 330	273 330	273 330
Uncollected Taxes (assumed collectible) from Prior Year Levy	1 071 591		1 071 591
Accrued Interest on Debt:			
Prior Year	28 430	28 430	
Current Year	27 680	(27 680)	(27 680)
Bond Issuance Amortization:			
Current Year	22 531	(22 531)	(22 531)
Bond Premium Amortization:			
Current Year	14 791	14 791	14 791
Capital Asset / Depreciation Adjustment:			
Capital Asset Inventory	750 386	(750 386)	(750 386)
Accumulated Depreciation Revision Prior Years	1 204 529	(1 204 629)	(1 204 629)
Total		\$ (1 960 121)	\$ (645 514)

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2008

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Fund). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund budget report appears in Exhibit C-5 and the other two reports are in Exhibits J-4 and J-5.

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

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. 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.
3. Prior to September 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.
4. Each budget is controlled at the organizational level by the administration, appropriate department head or campus principal within Board allocations at the revenue and expenditure function /object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

	August 31, 2008 Fund Balance
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ 113 538
Nonappropriated Budget Funds	44 566
All Special Revenue Funds	\$ 158 104

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The District's actual expenditures exceeded the budget in one functional area in the general fund. The variance was due primarily to the recording of accrued salaries at year end. The net budget variance was positive.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

C. ENCUMBRANCE ACCOUNTING

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders or contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31, and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at August 31, 2008 that were subsequently provided for in the 2008 -2009 budget.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

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

State statutes and Board policy authorize the District to invest in 1) Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009.; 2) Certificates of deposit and share certificates as permitted by Government Code 2256.010.; 3) Fully collateralized repurchase agreements permitted by Government Code 2256.011.; 4) A securities lending program as permitted by Government Code 2256.0115.; 5) Banker's acceptances as permitted by Government Code 2256.012.; 6) Commercial paper as permitted by Government Code 2256.013.; 7) No load money market mutual funds and no load mutual funds as permitted by Government Code 2256.014.; 8) A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015.; and 9) Public funds investment pools as permitted by Government Code 2256.016.

In compliance with the Public Funds Investment Act, the District has adopted an investment policy. The District is in substantial compliance with the requirements of the Act and with local policies. The risks that the District may be subject are:

- a. **Custodial Credit Risk - Deposits:** This is the risk that in the event of a bank failure, the District's deposits, including checking, money market accounts and certificates of deposit, may not be returned to it.

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. During 2007-2008 the District's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to the District and held by the District's agent.

The largest combined balances of cash, savings and time deposit accounts amounted to \$13,758,244 and occurred on February 1, 2008. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$15,621,637. The total amount of FDIC coverage at the time of the highest combined balance was \$300,000.

- b. **Custodial Credit Risk - Investments:** This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Any investment that is both uninsured and unregistered is exposed to custodial credit risk if the investment is held by the counterparty, or if the investment is held by the counterparty's trust department or agent, but not in the name of the investor government. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Positions in external investment pools are not subject to custodial credit risk.

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2008

- c. Interest Rate Risk: Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.
- d. Concentration of Credit Risk: Concentration risk is defined as positions of five percent or more in the securities of a single issuer. This is the issuer of the underlying investment, and not a pool. This does not apply to U.S. Government securities.

CASH DEPOSITS

At August 31, 2008, the amount of the District's cash balance in checking accounts was \$517,736. The cash balance in savings, time, money market accounts and certificate of deposit accounts was \$8,703,177. Cash on hand was \$150.

INVESTMENTS

The District's investments at August 31, 2008, are shown below:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Certificates of Deposit	\$ 8 703 177	\$ 8 703 177	.082
Texpool	<u>868 915</u>	<u>868 715</u>	.121
Total Investments	<u>\$ 9 572 092</u>	<u>\$ 9 571 892</u>	

Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly the market value of the position in these pools is the same as the value of the shares in each pool, which approximates the carrying amount. The investment pools are 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.

For the purpose of the statement of cash flows for proprietary fund types, if applicable, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid by February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Delinquent taxes not paid by June 30 are subject to penalty and interest charges plus 15% delinquent collection fees for attorney costs. Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

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

The assessed value of the property tax roll upon which the levy for the 2007-2008 fiscal year was based, was \$406,409,982. The tax rates assessed for the year ended August 31, 2008 to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.04 and \$.22804 per \$100 valuation, respectively, for a total of \$1.26804 per \$100 valuation. Current tax collections for the year ended August 31, 2008 were 94.4% of the year end adjusted tax levy. As of August 31, 2008, property taxes receivable totaled \$1,275,900 and \$139,807 for the General and Debt Service Funds respectively.

C. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2008 are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

	General Fund	Debt Service Fund	Capital Projects Fund	Other Funds	Total
State Entitlements	\$ 1 155 853	\$	\$	\$	\$ 1 155 853
State Grants				9 830	9 830
Federal Grants				25 459	25 459
Region 7 ESC	<u>16 580</u>				<u>16 580</u>
Total	<u>\$ 1 172 433</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 35 289</u>	<u>\$ 1 207 722</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2008

D. INTERFUND BALANCES AND TRANSFERS

Interfund balances at August 31, 2008 consisted of the following individual fund amounts:

<u>Fund</u>	<u>Due From</u>	<u>Due to</u>
General Fund:		
Debt Service Fund	\$ _____	\$ 99 526
Debt Service Fund:		
General Fund	\$ 99 526	\$ _____
Totals	<u>\$ 99 526</u>	<u>\$ 99 526</u>

Interfund transfers for the year ended August 31, 2008 consisted of the following individual fund amounts:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund:		
Special Revenue Fund	\$ _____	\$ _____
Special Revenue Fund:		
General Fund	_____	_____
Totals	<u>\$ 0</u>	<u>\$ 0</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2008, were as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Funds</u>	<u>Total</u>
Property Taxes	\$ 1 275 900	\$ 139 807	\$	\$	\$ 1 415 707
Other Governments	1 172 433			35 289	1 207 722
Other Funds		<u>99 526</u>			<u>99 526</u>
Totals	<u>\$ 2 448 333</u>	<u>\$ 239 333</u>	<u>\$ 0</u>	<u>\$ 35 289</u>	<u>\$ 2 722 955</u>

Payables at August 31, 2008, were as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Funds</u>	<u>Total</u>
Accounts Payable	\$ 10 761	\$	\$	\$	\$ 10 761
Payroll Deductions	41 091				41 091
Accrued Wages	228 385			23 055	251 440
Other Funds	<u>99 526</u>				<u>99 526</u>
Totals	<u>\$ 379 763</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 23 055</u>	<u>\$ 402 818</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended August 31, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
Governmental Activities:				
Land	\$ 69 490	\$	\$	\$ 69 490
Buildings & Improvements	21 620 093	1 319 852	301 085 * (736 580)	22 504 450
Furniture & Equipment	1 819 236	107 103	(37 000) * (13 806)	1 875 533
Construction In Progress	<u>301 085</u>	<u>1 584 157</u>	<u>(301 085)</u>	<u>1 584 157</u>
Total at Historical Cost	<u>23 809 904</u>	<u>3 011 112</u>	<u>(787 386)</u>	<u>26 033 630</u>
Less Accumulated Depreciation for:				
Buildings & Improvements	5 560 721	552 399	* 1 197 787	7 310 907
Furniture and Equipment	1 067 408	122 396	(37 000) * 6 842	1 159 646
Total Accumulated Depreciation	<u>6 628 129</u>	<u>674 795</u>	<u>1 167 629</u>	<u>8 470 553</u>
Governmental Activities Capital Assets, Net	<u>\$ 17 181 775</u>	<u>\$ 2 336 317</u>	<u>\$ (1 955 015)</u>	<u>\$ 17 563 077</u>

Depreciation expense was charged to governmental functions as follows:

11	Instruction	\$ 484 637
12	Instructional Resources and Media Services	25 642
23	School Leadership	13 226
31	Guidance, Counseling and Evaluation Services	1 147
33	Health Service	2 362
34	Student (Pupil) Transportation	71 326
35	Food Services	50 542
36	Cocurricular/Extracurricular Activities	5 331
41	General Administration	4 656
51	Plant Maintenance and Operations	9 785
53	Data Processing Services	<u>6 141</u>
Total Depreciation Expense		<u>\$ 674 795</u>

* The capital assets and accumulated depreciation were adjusted to report the revised amounts of the District's records. This is reported as a Special Item on Exhibit B-1

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

G. BONDS PAYABLE

Bonded indebtedness of the District is reflected in the Long-Term Debt Account Group, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

A summary of changes in bonds payable for the year ended August 31, 2008 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 9/1/07	Issued	Retired	Amounts Outstanding 8/31/08	Interest Current Year
Unlimited Tax Refunding Bonds Series 2003	1.45% to 3.5%	\$ 2 524 949	\$ 2 010 000	\$	\$ 225 000	\$ 1 785 000	\$ 65 265
Unlimited Tax School Building Bonds Series 2005	4.1% to 4.5%	\$ 9 000 000	8 830 000		110 000	8 720 000	399 580
Unlimited Tax School Building Bonds Series 2007	4.25% to 5.00%	\$ 4 000 000	4 000 000		100 000	3 900 000	184 075
Totals			<u>\$ 14 840 000</u>	<u>\$ 0</u>	<u>\$ 435 000</u>	<u>\$ 14 405 000</u>	<u>\$ 648 920</u>

Debt service requirements are as follows:

Year Ended August 31,	General Obligations		
	Principal	Interest	Total Requirements
2009	\$ 440 000	\$ 631 683	\$ 1 071 683
2010	455 000	613 607	1 068 607
2011	475 000	594 708	1 069 708
2012	495 000	576 270	1 071 270
2013	515 000	557 057	1 072 057
2014 - 2018	2 740 000	2 437 861	5 177 861
2019 - 2023	3 275 000	1 794 000	5 069 000
2024 - 2028	4 080 000	990 129	5 070 129
2029 - 2030	<u>1 930 000</u>	<u>97 750</u>	<u>2 027 750</u>
Totals	<u>\$ 14 405 000</u>	<u>\$ 8 293 065</u>	<u>\$ 22 698 065</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2008.

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. As of August 31, 2008 \$1,775,000 of bonds considered defeased are still outstanding.

H. CHANGES IN LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended August 31, 2008, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 14 840 000	\$ 0	\$ 435 000	\$ 14 405 000	\$ 440 000
Total Governmental Activities Long-term Liabilities	<u>\$ 14 840 000</u>	<u>\$ 0</u>	<u>\$ 435 000</u>	<u>\$ 14 405 000</u>	<u>\$ 440 000</u>

I. DEFERRED REVENUE

Deferred revenue at year-end consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Funds</u>	<u>Total</u>
Net Tax Revenue	\$ 1 212 105	\$ 132 817	\$	\$	\$ 1 344 922
State Entitlement	472 665				472 665
Existing Debt Allotment		33 520			33 520
Technology Allotment				213	213
Totals	<u>\$ 1 684 770</u>	<u>\$ 166 337</u>	<u>\$ 0</u>	<u>\$ 213</u>	<u>\$ 1 851 320</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

J. LOCAL AND INTERMEDIATE SOURCES OF REVENUES

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Other Funds</u>	<u>Total</u>
Property Taxes	\$ 4 223 452	\$ 903 647	\$	\$	\$ 5 127 099
Penalties, Interest & Other Tax Related Income	174 375	21 413			195 788
Food Sales				190 548	190 548
Investment Income	234 576	20 616	219 072	8 044	482 308
Co-curricular Student Activities	82 555			124 503	207 058
Other	<u>16 950</u>			<u>35 494</u>	<u>52 444</u>
Total	<u>\$ 4 731 908</u>	<u>\$ 945 676</u>	<u>\$ 219 072</u>	<u>\$ 358 589</u>	<u>\$ 6 255 245</u>

K. JOINT VENTURE SHARED SERVICE ARRANGEMENT

The District participates in a shared services arrangement for special education services with six other school districts. Although a portion of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. The District made payments to the fiscal agent of \$473,370.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

L. COMMITMENTS UNDER OPERATING LEASES

Commitments under operating (noncapitalized) lease agreements for equipment provided for minimum future rental payments as of August 31, 2008, as follows:

Year Ended August 31	Total
2009	\$ 81 890
2010	84 398
2011	50 113
2012	40 882
2013	21 891
2014	2 107
Total Minimum Rentals	\$ 281 281
Rental Expenditures in Fiscal Year 2008	\$ 66 981

M. PENSION PLAN OBLIGATIONS

The District contributes to the Teacher Retirement System of Texas (the System), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan. The System 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. The System also administers proportional retirement benefits and service credit transfers under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The System issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

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

Eligible employment for membership in the System is defined as employment in a public, state-supported educational institution in Texas for one half or more of the standard workload at a rate comparable to the rate of compensation for other persons employed in similar positions. Any employee of a public, state-supported educational institution in Texas shall be considered to meet these requirements if the member's customary employment is for twenty hours or more for each week and for four and one-half months or more in one school year. All employees of the public education system in Texas must participate in the System unless an exception to membership applies.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

In order to be eligible to retire and receive a lifetime monthly service annuity, a member must have at least five years of service credit and meet the eligibility requirements for age and service.

When a member meets the requirements for a normal age service retirement and retires, the retiree is entitled to receive a payment of a lifetime monthly annuity, calculated according to the standard annuity benefit formula in effect at the time of retirement with no reduction that would be required for early age retirement. Under current law, effective through August 31, 2008, a member meets the age and service requirements for normal age service retirement when 1) the member is age sixty-five with five or more years of service credit, or 2) the member's age and years of service credit total eighty and the member has at least five years of service credit.

When a member elects an early age service retirement, the retiree is entitled to receive a payment of a lifetime monthly annuity, calculated according to the standard annuity benefit formula in effect at the time of retirement, but reduced for early age according to actuarial tables. Under current law, the member is entitled to early age service retirement when the total of age and service is less than eighty and the following conditions are met: 1) the member is at least age fifty-five with five or more years of service credit, or 2) the member is any age below age fifty with thirty or more years of service credit.

Anyone who becomes a TRS member on or after September 1, 2007, will be required to meet one of the following eligibility requirements to qualify for an unreduced annuity at retirement:

- Age 65 with 5 years of service credit, or
- Age 60 with at least 5 years of service credit and meets the Rule of 80 (combined age and years of service credit equal at least 80)

Current members who terminate TRS membership by withdrawing TRS contributions upon termination of employment will also be subject to these new eligibility requirements if they resume TRS membership on or after September 1, 2007. Members who are subject to these new eligibility requirements and who retire before age 60 will have a 5% annuity reduction for each year under age 60, if they meet Rule of 80 at the time of retirement. Members with at least 30 years of service credit but who do not meet the Rule of 80 also will have a 5% reduction for each year under age 60.

The District's employees' contributions to the System for the years ending August 31, 2006, 2007 and 2008 were \$408,498, \$451,911 and \$484,252, respectively. Other contributions made from federal and private grants and from the district for salaries above the statutory minimum for the years ending August 31, 2006, 2007 and 2008 were \$56,433, \$61,988 and \$85,353, respectively.

The on behalf amounts contributed by the State, \$453,737, are reflected in the financial statements in the General Fund by respective function, in accordance with Governmental Accounting Standards Board Statement No. 24.

N. COMPENSATED ABSENCES

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying general purpose financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying general purpose financial statements.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2008

O. HEALTH CARE

During the year ended August 31, 2008 employees of the Eustace Independent School District were covered by the state sponsored health insurance plan. The district paid premiums of \$267 per month per employee to the plan and employees, at their option, authorized payroll withholding to pay premiums for dependents.

P. SELF-INSURED WORKERS' COMPENSATION

During the year ended August 31, 2008 the Eustace Independent School District was a participant in the East Texas Educational Insurance Association's Workers' Compensation Self-insurance Joint Fund pursuant to Texas Labor Code Annotated Chapter 504 and Texas Government Code Ch. 791 (the Interlocal Cooperation Act).

The Board of Trustees of the plan and the plan supervisor, Claims Administrative Services, Inc., shall establish the proportionate contribution of each participant annually upon the actual loss experience and claims of the District, the experience rating modification of the District, the prorata costs or savings to the plan from the loss experience of all participants, and all reasonable and necessary administrative expenses of the plan. The proportionate contributions of all participants shall be combined into a self-insurance joint fund.

The District paid a fixed cost of \$21,058 to the plan supervisor for administration of claims, loss control, record keeping, and the cost of excess insurance. The loss fund maximum set aside in a separate account for claims not covered by excess insurance was established to be \$79,913 for the fiscal year. The self insurance retention maximum was \$225,000.

During the fiscal year, the District paid net claims of \$25,875 covering six plan periods ending August 31, 2008, and has accrued \$5,464 as a liability for unpaid claims determined by the claims administrator.

Q. CONSTRUCTION AND OTHER COMMITMENTS AND CONTINGENCIES

The District participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectibility of any related receivable at August 31, 2008 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

The District will continue construction projects in 2008-2009.

R. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disaster. During fiscal year 2008 the district purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

COMBINING STATEMENTS

EUSTACE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2008

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program
ASSETS			
1110	\$ -	\$ -	\$ 100,403
1240	-	9,968	13,135
1000	<u>\$ -</u>	<u>\$ 9,968</u>	<u>\$ 113,538</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2160	\$ -	\$ 9,968	\$ -
2300	-	-	-
2000	<u>-</u>	<u>9,968</u>	<u>-</u>
Fund Balances:			
Reserved For:			
3450	-	-	113,538
3490	-	-	-
3000	<u>-</u>	<u>-</u>	<u>113,538</u>
4000	<u>\$ -</u>	<u>\$ 9,968</u>	<u>\$ 113,538</u>

255 ESEA II,A Training and Recruiting	262 Title II, D Education Technology	269 Title V, Pt.A Innovative Programs	393 Texas Successful Schools Prog.	397 Advanced Placement Incentives	401 Optional Extended Year Program	404 Student Success Initiative	411 Technology Allotment
\$ -	\$ -	\$ -	\$ 6,850	\$ 4,525	\$ (724)	\$ (2,297)	\$ 4,041
2,356	-	-	-	-	724	4,992	-
<u>\$ 2,356</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,850</u>	<u>\$ 4,525</u>	<u>\$ -</u>	<u>\$ 2,695</u>	<u>\$ 4,041</u>
\$ 2,356	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,695	\$ -
-	-	-	-	-	-	-	213
<u>2,356</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,695</u>	<u>213</u>
-	-	-	-	-	-	-	-
-	-	-	6,850	4,525	-	-	3,828
-	-	-	6,850	4,525	-	-	3,828
<u>\$ 2,356</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,850</u>	<u>\$ 4,525</u>	<u>\$ -</u>	<u>\$ 2,695</u>	<u>\$ 4,041</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2008

Data Control Codes	415 Kindergarten and Pre-K Grants	428 High School Allotment	429 Automated External Defibrillator	461 Campus Activity Funds	
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ 3,922	\$ -	\$ 29,083
1240	Due from Other Governments	4,114	-	-	-
1000	Total Assets	<u>\$ 4,114</u>	<u>\$ 3,922</u>	<u>\$ -</u>	<u>\$ 29,083</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
2160	Accrued Wages Payable	\$ 4,114	\$ 3,922	\$ -	\$ -
2300	Deferred Revenues	-	-	-	-
2000	Total Liabilities	<u>4,114</u>	<u>3,922</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Reserved For:					
3450	Food Service	-	-	-	-
3490	Other Purposes	-	-	-	29,083
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>29,083</u>
4000	Total Liabilities and Fund Balances	<u>\$ 4,114</u>	<u>\$ 3,922</u>	<u>\$ -</u>	<u>\$ 29,083</u>

499 Region VII Technology Grant	Total Nonmajor Governmental Funds
\$ 280	\$ 146,083
-	35,289
<u>\$ 280</u>	<u>\$ 181,372</u>
\$ -	\$ 23,055
-	213
<u>-</u>	<u>23,268</u>
-	113,538
280	44,566
<u>280</u>	<u>158,104</u>
<u>\$ 280</u>	<u>\$ 181,372</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2008

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program
REVENUES:			
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ 193,823
5800 State Program Revenues	-	-	5,465
5900 Federal Program Revenues	5,600	274,281	538,122
5020 Total Revenues	<u>5,600</u>	<u>274,281</u>	<u>737,410</u>
EXPENDITURES:			
Current:			
0011 Instruction	5,450	270,041	-
0013 Curriculum and Instructional Staff Development	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	4,240	-
0032 Social Work Services	150	-	-
0033 Health Services	-	-	-
0035 Food Services	-	-	676,389
0036 Extracurricular Activities	-	-	-
0053 Data Processing Services	-	-	-
6030 Total Expenditures	<u>5,600</u>	<u>274,281</u>	<u>676,389</u>
1200 Net Change in Fund Balance	-	-	61,021
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>52,517</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 113,538</u>

255 ESEA II,A Training and Recruiting	262 Title II, D Education Technology	269 Title V, Pt.A Innovative Programs	393 Texas Successful Schools Prog.	397 Advanced Placement Incentives	401 Optional Extended Year Program	404 Student Success Initiative	411 Technology Allotment
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	7,237	28,610	43,067
70,056	2,290	3,741	-	-	-	-	-
<u>70,056</u>	<u>2,290</u>	<u>3,741</u>	<u>-</u>	<u>-</u>	<u>7,237</u>	<u>28,610</u>	<u>43,067</u>
70,056	2,290	-	-	-	7,237	28,610	39,844
-	-	3,741	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>70,056</u>	<u>2,290</u>	<u>3,741</u>	<u>-</u>	<u>-</u>	<u>7,237</u>	<u>28,610</u>	<u>39,844</u>
-	-	-	-	-	-	-	3,223
-	-	-	6,850	4,525	-	-	605
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,850</u>	<u>\$ 4,525</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,828</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2008

Data Control Codes	415 Kindergarten and Pre-K Grants	428 High School Allotment	429 Automated External Defibrillator	461 Campus Activity Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ 134,766
5800 State Program Revenues	97,800	115,163	1,475	-
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	<u>97,800</u>	<u>115,163</u>	<u>1,475</u>	<u>134,766</u>
EXPENDITURES:				
Current:				
0011 Instruction	97,800	115,163	-	-
0013 Curriculum and Instructional Staff Development	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-	-
0032 Social Work Services	-	-	-	-
0033 Health Services	-	-	1,475	-
0035 Food Services	-	-	-	-
0036 Extracurricular Activities	-	-	-	153,520
0053 Data Processing Services	-	-	-	-
6030 Total Expenditures	<u>97,800</u>	<u>115,163</u>	<u>1,475</u>	<u>153,520</u>
1200 Net Change in Fund Balance	-	-	-	(18,754)
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>47,837</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 29,083</u>

499 Region VII Technology Grant	Total Nonmajor Governmental Funds
\$ 30,000	\$ 358,589
-	298,817
-	894,090
<u>30,000</u>	<u>1,551,496</u>
-	636,491
-	3,741
-	4,240
-	150
-	1,475
-	676,389
-	153,520
29,720	29,720
<u>29,720</u>	<u>1,505,726</u>
280	45,770
-	112,334
<u>\$ 280</u>	<u>\$ 158,104</u>

REQUIRED TEA SCHEDULES

EUSTACE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2008

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
1999 and prior years	Various	Various	\$ Various
2000	1.300000	0.069000	183,858,340
2001	1.303000	0.062000	209,912,747
2002	1.320000	0.070000	229,962,518
2003	1.320000	0.070000	260,643,381
2004	1.380000	0.010000	296,142,950
2005	1.410000	0.060000	322,697,007
2006	1.450000	0.220000	344,123,353
2007	1.325700	0.191800	387,711,631
2008 (School year under audit)	1.040000	0.228040	406,409,982
100 TOTALS			

(10) Beginning Balance 9/1/2007	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2008
\$ 349,663	\$ -	\$ 5,518	\$ 623	\$ (5,826)	\$ 337,696
38,901	-	2,445	130	(546)	35,780
52,341	-	3,147	150	(605)	48,439
67,497	-	3,044	161	(448)	63,844
78,879	-	6,558	348	(857)	71,116
97,170	-	13,574	98	(1,247)	82,251
131,771	-	23,075	982	(2,054)	105,660
226,898	-	54,345	8,245	(6,093)	158,215
370,604	-	116,236	16,817	(12,561)	224,990
-	5,153,441	3,995,510	876,092	5,877	287,716
<u>\$ 1,413,724</u>	<u>\$ 5,153,441</u>	<u>\$ 4,223,452</u>	<u>\$ 903,646</u>	<u>\$ (24,360)</u>	<u>\$ 1,415,707</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2009-2010
 GENERAL AND SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2008

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

Account Number	Account Name	1	2	3	4	5	6	7
		(702) School Board	(703) Tax Collections	(701) Supt's Office	(750) Indirect Cost	(720) Direct Cost	(other) Miscellaneous	Total
611X-6146	PAYROLL COSTS	\$ -	\$ 56,083	\$ 159,494	\$ 103,423	\$ -	\$ -	\$ 319,000
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	31,753	-	-	-	31,753
6212	Audit Services	-	-	-	24,400	-	-	24,400
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	74,196	-	-	-	-	74,196
621X	Other Professional Services	1,822	2,205	4	653	-	-	4,684
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	1,167	-	-	1,167
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	126	2,856	4,687	-	-	7,669
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	136	-	-	-	136
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	10,508	9,226	3,568	6,192	-	-	29,494
6410	Travel, Subsistence, Stipends	12,596	2,233	5,099	95	-	-	20,023
6420	Ins. and Bonding Costs	7,000	500	-	-	-	-	7,500
6430	Election Costs	-	-	-	-	-	-	-
6490	Miscellaneous Operating	17,396	440	1,341	1,053	-	-	20,230
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 49,322	\$ 145,009	\$ 204,251	\$ 141,670	\$ -	\$ -	\$ 540,252

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 12,900,017

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10) \$ 107,103
Total Debt & Lease(6500)	(11) -
Plant Maintenance (Function 51, 6100-6400)	(12) 1,028,830
Food (Function 35, 6341 and 6499)	(13) 311,067
Stipends (6413)	(14) -
Column 4 (above) - Total Indirect Cost	141,670

SubTotal: 1,588,671

Net Allowed Direct Cost \$ 11,311,346

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15) \$ 22,504,450
Historical Cost of Building over 50 years old	(16) \$ -
Amount of Federal Money in Building Cost (Net of #16)	(17) \$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18) \$ 1,875,533
Historical Cost of Furniture & Equipment over 16 years old	(19) \$ 150,000
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20) \$ -

(8) NOTE A: No Function 53 expenditures are included in this report on administrative costs.
 No Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

EUSTACE INDEPENDENT SCHOOL DISTRICT
 FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
 GENERAL FUND AS OF AUGUST 31, 2008

UNAUDITED

1	Total General Fund Balance as of 8/31/08 (Exhibit C-1 object 3000 for the General Fund Only)	\$	5,981,940
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$	-
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund Only)		4,738,497
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)		-
5	Estimate of one month's average cash disbursements during the regular school session (9/1/08-5/31/09).		-
6	Estimate of delayed payments from state sources (58xx) including August payment delays		1,148,607
7	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount.		997,081
8	Estimate of delayed payments from federal sources (59xx)		25,459
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)		-
10	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)		<u>6,909,644</u>
11	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)	\$	<u><u>(927,704)</u></u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2008

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 225,303	\$ 223,500	\$ 193,823	\$ (29,677)
5800	State Program Revenues	16,500	16,500	5,465	(11,035)
5900	Federal Program Revenues	478,000	478,000	538,122	60,122
5020	Total Revenues	719,803	718,000	737,410	19,410
EXPENDITURES:					
0035	Food Services	719,000	719,000	676,389	42,611
6030	Total Expenditures	719,000	719,000	676,389	42,611
1200	Net Change in Fund Balances	803	(1,000)	61,021	62,021
0100	Fund Balance - September 1 (Beginning)	52,517	52,517	52,517	-
3000	Fund Balance - August 31 (Ending)	\$ 53,320	\$ 51,517	\$ 113,538	\$ 62,021

EUSTACE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - DEBT SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2008

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 929,693	\$ 875,356	\$ 945,676	\$ 70,320
5800	State Program Revenues	133,390	208,564	212,905	4,341
5020	Total Revenues	1,063,083	1,083,920	1,158,581	74,661
EXPENDITURES:					
Debt Service:					
0071	Debt Service - Principal on Long Term Debt	440,000	599,178	435,000	164,178
0072	Debt Service - Interest on Long Term Debt	631,683	484,743	648,920	(164,177)
0073	Debt Service - Bond Issuance Cost and Fees	-	1,431	1,431	-
6030	Total Expenditures	1,071,683	1,085,352	1,085,351	1
1200	Net Change in Fund Balances	(8,600)	(1,432)	73,230	74,662
0100	Fund Balance - September 1 (Beginning)	284,854	284,854	284,854	-
3000	Fund Balance - August 31 (Ending)	\$ 276,254	\$ 283,422	\$ 358,084	\$ 74,662

COMPLIANCE, INTERNAL CONTROL AND FEDERAL AWARDS

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA
J. W. Lambright, CPA

Cheri E. Kirkland, CPA

P. O. Box 912
505 E. Tyler
Athens, Texas 75751
(903) 675-5674
FAX (903) 675-5676
smithlambright.com

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*

Independent Auditor's Report

Board of School Trustees
Eustace Independent School District
P. O. Box 188
Eustace, Texas 75124

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the District as of and for the year ended August 31, 2008, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as Reference Number 2008-I to be a significant deficiency in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we consider item 2008-1 to be a material weakness.

Compliance and Other Matters

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

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

Respectfully submitted,

Smith, Lambright & Associates, P.C.

SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants

January 30, 2009

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA

J. W. Lambright, CPA

Cheri E. Kirkland, CPA

P. O. Box 912
505 E. Tyler
Athens, Texas 75751
(903) 675-5674
FAX (903) 675-5676
smithlambright.com

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

Independent Auditor's Report

Board of School Trustees
Eustace Independent School District
P. O. Box 188
Eustace, Texas 75124

Members of the Board of Trustees:

Compliance

We have audited the compliance of the District with the types of compliance requirements described in the U. S Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2008. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB *Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB *Circular A-133* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2008.

Internal Control Over Compliance

The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion 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.

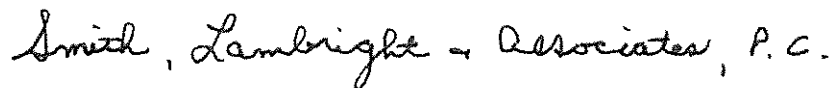
A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control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

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

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

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

Respectfully submitted,



SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants

January 30, 2009

EUSTACE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2008

I. Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes no

Noncompliance material to financial statements noted? yes no

Federal Awards:

Internal control over major programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? yes none reported

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

Any audit findings disclosed that are required to be reported in accordance with Section ____ .510 (a), OMB Circular A-133? yes no

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
10.553	School Breakfast Program
10.555	National School Lunch Program

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

Auditee qualified as low risk auditee? yes no

District Contact Person Coy Holcombe, Ed.D.
Superintendent

EUSTACE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED AUGUST 31, 2008

II. Financial Statement Findings

Reference Number 2008-1:

Accounting Records - Bank Account Reconciliations

Condition: The District's bank accounts had not been reconciled and balanced to the general ledger.

Criteria: Bank accounts should be reconciled to the general ledger to be assured that the amounts of cash and investments are stated correctly for financial statement reporting purposes.

Cause: The District's bank accounts had not been fully reconciled to the general ledger in the prior year, and this had carried over to the current fiscal year.

Effect: The actual cash and investment balances were not in agreement to the general ledger. Bank reconciliations were prepared during the audit process and the adjustments to the general ledger were made and recorded by audit entry.

Recommendation: All bank accounts should be reconciled on a monthly basis, and all differences noted should be reviewed and recorded in the accounting records each month.

Auditee Response: The District has begun to reconcile all bank accounts as of September, 2008.

EUSTACE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED AUGUST 31, 2008

III. Federal Awards Findings and Questioned Costs

The audit disclosed no finding required to be reported.

EUSTACE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2008

Reference Number 2007-1:

Accounting Records

The bank accounts were reconciled during the audit process and recorded by audit entry.

The payroll liabilities accounts and interfund balances/transfers were analyzed and reconciled by the District staff and auditors and recorded by audit entry.

The campus activity accounts were coded and recorded to the accounting records by audit entry.

Reference Number 2007-2:

Budget Variances

The District continues to review and amend the budget before exceeding a functional area. The TRS on-behalf amounts were budgeted, and calculations were made and recorded in the accounting records.

There was one variance in the budget for the general fund for the current year due to the recording of accrued salaries at year end.

EUSTACE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2008

Reference Number 2008-I:

Accounting Records - Bank Account Reconciliations

The cash and investment accounts were reconciled during the audit process and recorded as audit adjusting entries. The District has begun to reconcile all bank accounts as of September, 2008 records.

EUSTACE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2008

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	08-610101107905	\$ 264,313
ESEA, Title I, Part A - Improving Basic Programs	84.010A	09-610101107905	9,968
Total CFDA Number 84.010A			274,281
ESEA Title IV - Safe and Drug-Free Schools	84.186A	08-691001107905	5,600
Title V, Part A - Innovative Programs	84.298	08-685001107905	3,741
Title II, Part D -Enhancing Ed. Through Technology	84.318	08-630001107905	2,290
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	08-694501107905	67,700
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	09-694501107905	2,356
Total CFDA Number 84.367A			70,056
Total Passed Through State Department of Education			\$ 355,968
TOTAL DEPARTMENT OF EDUCATION			\$ 355,968
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
National School Breakfast & Lunch Program*	10.555		\$ 538,122
Total Passed Through the State Department of Agriculture			\$ 538,122
TOTAL DEPARTMENT OF AGRICULTURE			\$ 538,122
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 894,090

*Clustered Programs as required by Compliance Supplement March, 2008.

Note A - Funds received from ESC Region 7 for Head Start reimbursements of \$71,237 are not considered as federal financial assistance for purposes of this schedule. The program is reported as a federal program of ESC Region 7.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2008

Basis of Presentation:

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the District and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A - 133, *Audits of State, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.