

EUSTACE INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2010

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ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2010

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EUSTACE INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2010

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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, 2010 at a meeting of the board of school trustees of such school district on the \_\_\_\_\_ day of \_\_\_\_\_, 2010.

\_\_\_\_\_  
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  

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Cheri E. Kirkland, CPA

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505 E. Tyler  
Athens, Texas 75751  
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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, 2010, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

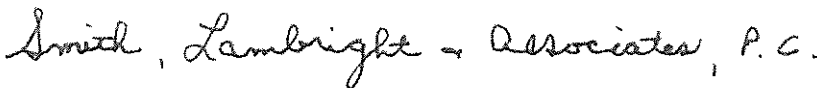
In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2010 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and 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 should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Budgetary Comparison Schedule - General Fund and 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 Budgetary Comparison Schedule - General Fund and 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

November 16, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS



A WORLD CLASS EDUCATION

# Eustace Independent School District

Highway 316 South • P.O. Box 188  
Eustace, Texas 75124

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COY HOLCOMBE  
Superintendent

JANICE BEASLEY  
Assistant  
Superintendent

## 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, 2009. 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 \$12,953,594.

During the year, the District had expenses that were \$437,271 more than the \$11,250,165 generated in tax and other revenues for governmental programs. This compares to last year when expenses were more than revenues by \$ 1,525,185.

The General Fund ended the year with a fund balance of \$4,036,775.

The resources available for appropriation were \$184,994 less 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 \$13,390,865 to \$12,953,594. 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 \$5,509,820. This decrease in governmental net assets was the result of the following factors. First, the District's expenditures exceeded the revenues by about (\$437,271). Second, the District paid bonds and other long-term debt in the amount of \$455,000, and acquired capital assets in the amount of \$326,776. Third, the District recorded depreciation of \$954,285.

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 cost of all governmental activities this year was \$14,320,059 compared to \$14,210,667 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 \$5,924,226 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 \$4,473,451 which is lower than last year's total of \$5,532,864.

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 \$20,266,014 in net capital assets. These assets include all vehicles, facilities, and equipment. This amount represents a net decrease of \$204,171 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, new servers, band instruments, computers, new bus, and capital improvement projects.

### **Debt**

The District has an outstanding amount of \$13,510,000 in bonded debt at year-end.

### Economic Factors and Next Year's Budget Rate

The budget for 2009-2010 was based on many factors:

- (1) Decreased 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
- (9) Technology Upgrades

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 2009-2010 budget was adopted, all these indicators were considered. The current budget reflects a 2.28% **Decrease** over last year's total.

Revenue resources for the 2009-2010 budget are from property tax collections and local sources.

- Local – 50%
- State – 50%

### **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**

<b>Governmental Activities</b>	<b>2009</b>	<b>2010</b>
Current and Other Assets	\$8,853,112.00	\$7,511,161.00
Capital Assets	<u>\$20,470,185.00</u>	<u>\$20,266,014.00</u>
<b>Total Assets</b>	<b><u>\$29,323,297.00</u></b>	<b><u>\$27,777,175.00</u></b>
Current Liabilities	\$1,967,432.00	\$1,025,777.00
Long Term Liabilities	<u>\$13,965,000.00</u>	<u>\$13,797,804.00</u>
<b>Total Liabilities</b>	<b><u>\$15,932,432.00</u></b>	<b><u>\$14,823,581.00</u></b>
Investment in Capital Assets	\$6,494,009.00	\$6,737,098.00
Restricted Federal & State Programs	\$147,750.00	\$182,085.00
Restricted for Debt Service	\$437,780.00	\$462,744.00
Restricted for Capital Projects	\$0.00	\$0.00
Restricted for Other Purposes	\$36,875.00	\$61,847.00
Unrestricted Assets	<u>\$6,274,451.00</u>	<u>\$5,509,820.00</u>
<b>Total Net Assets</b>	<b><u>\$13,390,865.00</u></b>	<b><u>\$12,953,594.00</u></b>

# Eustace Independent School District

**Table II  
Statement of Activities**

**Primary Government**

**Governmental Activities**

	2009	2010
<b>Program Revenues</b>		
Charges for Services	\$383,818.00	\$496,707.00
Operating Grants & Contributions	\$1,959,533.00	\$2,135,916.00
<b>Total Program Revenues</b>	<u>\$2,343,351.00</u>	<u>\$2,632,623.00</u>

**Expenses**

Instructional, Curriculum, Media	\$7,991,655.00	\$8,137,339.00
Instructional / School Leadership	\$712,481.00	\$727,110.00
Student Support Services	\$916,644.00	\$950,665.00
Child Nutrition	\$774,975.00	\$818,441.00
Co-Curricular Activities	\$696,654.00	\$691,613.00
General Administration	\$469,497.00	\$455,324.00
Plant Maintenance, Security, Data Processing	\$1,469,567.00	\$1,454,571.00
Debit Services	\$640,072.00	\$621,973.00
Capital Outlay	\$23,976.00	\$5,072.00
Intergovernmental Charges	\$409,621.00	\$345,344.00
Other Intergovernmental Charges	\$105,525.00	\$112,607.00
<b>Total Expenses</b>	<u>\$14,210,667.00</u>	<u>\$14,320,059.00</u>

**General Revenues**

	2009	
Maintenance & Operating Taxes	\$4,691,930.00	\$4,898,681.00
Debt Service Taxes	\$981,282.00	\$1,025,545.00
State Aide - Formula Grants	\$5,220,770.00	\$5,116,316.00
Unrestricted Grants / Contributions	\$242,422.00	\$132,583.00
Investment Earnings	\$144,648.00	\$67,610.00
Miscellaneous Revenue	\$170,967.00	\$9,430.00
Special Item - (Use)	(\$1,109,888.00)	\$0.00
<b>Total General Revenue</b>	<u>\$10,342,131.00</u>	<u>\$11,250,165.00</u>

**Change in Net Assets** (\$1,525,185) (\$437,271.00)

**Net Assets - Beginning** \$14,916,050 \$13,390,865

**Net Assets - Ending** \$13,390,865 \$12,953,594

BASIC FINANCIAL STATEMENTS

EUSTACE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
AUGUST 31, 2010

EXHIBIT A-1

Data Control Codes	Primary Government  Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 1,927,171
1120 Current Investments	3,122,733
1220 Property Taxes Receivable (Delinquent)	1,578,039
1230 Allowance for Uncollectible Taxes	(78,901)
1240 Due from Other Governments	659,955
1250 Accrued Interest	3,727
1410 Deferred Expenses	29,549
1420 Capitalized Bond and Other Debt Issuance Costs	268,888
Capital Assets:	
1510 Land	69,490
1520 Buildings, Net	19,174,025
1530 Furniture and Equipment, Net	1,022,499
1000 Total Assets	27,777,175
<b>LIABILITIES</b>	
2110 Accounts Payable	24,848
2150 Payroll Deductions & Withholdings	59,245
2160 Accrued Wages Payable	269,959
2200 Accrued Expenses	26,093
2300 Deferred Revenues	645,632
Noncurrent Liabilities	
2501 Due Within One Year	475,000
2502 Due in More Than One Year	13,322,804
2000 Total Liabilities	14,823,581
<b>NET ASSETS</b>	
3200 Invested in Capital Assets, Net of Related Debt	6,737,098
3820 Restricted for Federal and State Programs	182,085
3850 Restricted for Debt Service	462,744
3870 Restricted for Campus Activities	61,847
3900 Unrestricted Net Assets	5,509,820
3000 Total Net Assets	\$ 12,953,594

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, 2010

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	3 Charges for Services	4 Operating Grants and Contributions	6 Primary Gov. Governmental Activities
<b>Primary Government:</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
11 Instruction	\$ 7,819,694	\$ 36,120	\$ 1,190,362	\$ (6,593,212)
12 Instructional Resources and Media Services	203,323	-	27,754	(175,569)
13 Curriculum and Staff Development	114,322	64,027	26,400	(23,895)
21 Instructional Leadership	75,809	-	32,864	(42,945)
23 School Leadership	651,301	-	30,969	(620,332)
31 Guidance, Counseling and Evaluation Services	320,226	-	21,322	(298,904)
32 Social Work Services	41,358	-	2,747	(38,611)
33 Health Services	116,777	-	5,106	(111,671)
34 Student (Pupil) Transportation	472,304	-	17,290	(455,014)
35 Food Services	818,441	196,214	615,962	(6,265)
36 Extracurricular Activities	691,613	199,049	15,540	(477,024)
41 General Administration	455,324	-	16,342	(438,982)
51 Plant Maintenance and Operations	1,162,990	1,297	28,523	(1,133,170)
52 Security and Monitoring Services	7,981	-	2,200	(5,781)
53 Data Processing Services	283,600	-	102,535	(181,065)
72 Debt Service - Interest on Long Term Debt	612,802	-	-	(612,802)
73 Debt Service - Bond Issuance Cost and Fees	9,171	-	-	(9,171)
81 Capital Outlay	5,072	-	-	(5,072)
93 Payments related to Shared Services Arrangements	345,344	-	-	(345,344)
99 Other Intergovernmental Charges	112,607	-	-	(112,607)
<b>[TP] TOTAL PRIMARY GOVERNMENT:</b>	<b>\$ 14,320,059</b>	<b>\$ 496,707</b>	<b>\$ 2,135,916</b>	<b>(11,687,436)</b>
Data Control Codes	<b>General Revenues:</b>			
	<b>Taxes:</b>			
MT	Property Taxes, Levied for General Purposes			4,898,681
DT	Property Taxes, Levied for Debt Service			1,025,545
SF	State Aid - Formula Grants			5,116,316
GC	Grants and Contributions not Restricted			132,583
IE	Investment Earnings			67,610
MI	Miscellaneous Local and Intermediate Revenue			9,430
TR	<b>Total General Revenues</b>			<b>11,250,165</b>
CN	Change in Net Assets			(437,271)
NB	Net Assets--Beginning			13,390,865
NE	Net Assets--Ending			<b>\$ 12,953,594</b>

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

EUSTACE INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2010

EXHIBIT C-1

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
1110	\$ 1,745,060	\$ 372,734	\$ (190,623)	\$ 1,927,171
1120	3,122,733	-	-	3,122,733
1220	1,400,206	177,833	-	1,578,039
1230	(70,010)	(8,891)	-	(78,901)
1240	208,334	-	451,621	659,955
1250	3,727	-	-	3,727
1260	-	99,526	-	99,526
1410	29,549	-	-	29,549
1000	<u>\$ 6,439,599</u>	<u>\$ 641,202</u>	<u>\$ 260,998</u>	<u>\$ 7,341,799</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
2110	\$ 24,848	\$ -	\$ -	\$ 24,848
2150	59,245	-	-	59,245
2160	252,893	-	17,066	269,959
2170	99,526	-	-	99,526
2300	1,966,312	178,458	-	2,144,770
2000	<u>2,402,824</u>	<u>178,458</u>	<u>17,066</u>	<u>2,598,348</u>
<b>Fund Balances:</b>				
<b>Reserved For:</b>				
3420	-	462,744	-	462,744
3450	-	-	182,085	182,085
3490	-	-	61,847	61,847
<b>Unreserved Designated For:</b>				
3510	2,000,000	-	-	2,000,000
<b>Unreserved and Undesignated:</b>				
3600	2,036,775	-	-	2,036,775
3000	<u>4,036,775</u>	<u>462,744</u>	<u>243,932</u>	<u>4,743,451</u>
4000	<u>\$ 6,439,599</u>	<u>\$ 641,202</u>	<u>\$ 260,998</u>	<u>\$ 7,341,799</u>

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

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

AUGUST 31, 2010

Total Fund Balances - Governmental Funds	<u>\$ 4 743 451</u>
 <b>Amounts reported for governmental activities in the Statement of Net Assets are different because:</b>	
 <u>Data</u>	
<u>Control</u>	
<u>Codes</u>	
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 \$29,913,933 and the accumulated depreciation was \$9,443,748. 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 \$13,965,000. 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 (decrease) net assets.	<u>6 505 185</u>
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 \$291,419, and the liabilities included unamortized premium on issuance of debt of \$302,595. The net effect of these debt issuance assets and liabilities is to increase (decrease) net assets.	<u>(11 176)</u>
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 2010 capital outlays and debt principal payments is to increase (decrease) net assets.	<u>1 427 538</u>
4 The 2010 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	<u>(954 285)</u>
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 increase (decrease) net assets.	<u>1 242 881</u>
<b>19 Net Assets of Governmental Activities</b>	<u><u>\$ 12 953 594</u></u>

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, 2010

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 5,184,490	\$ 1,029,999	\$ 397,661	\$ 6,612,150
5800 State Program Revenues	5,602,491	65,004	197,246	5,864,741
5900 Federal Program Revenues	84,035	-	1,436,039	1,520,074
5020 Total Revenues	<u>10,871,016</u>	<u>1,095,003</u>	<u>2,030,946</u>	<u>13,996,965</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	6,390,966	-	887,561	7,278,527
0012 Instructional Resources and Media Services	159,056	-	23,410	182,466
0013 Curriculum and Instructional Staff Development	111,922	-	53,254	165,176
0021 Instructional Leadership	43,168	-	32,641	75,809
0023 School Leadership	638,989	-	-	638,989
0031 Guidance, Counseling and Evaluation Services	310,364	-	9,033	319,397
0032 Social Work Services	40,714	-	644	41,358
0033 Health Services	115,071	-	-	115,071
0034 Student (Pupil) Transportation	533,566	-	-	533,566
0035 Food Services	-	-	781,067	781,067
0036 Extracurricular Activities	485,616	-	84,933	570,549
0041 General Administration	433,662	-	-	433,662
0051 Facilities Maintenance and Operations	1,154,763	-	-	1,154,763
0052 Security and Monitoring Services	5,766	-	2,215	7,981
0053 Data Processing Services	179,438	-	96,881	276,319
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	-	455,000	-	455,000
0072 Debt Service - Interest on Long Term Debt	-	613,608	-	613,608
0073 Debt Service - Bond Issuance Cost and Fees	-	1,431	-	1,431
Capital Outlay:				
0081 Facilities Acquisition and Construction	683,688	-	-	683,688
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	345,344	-	-	345,344
0099 Other Intergovernmental Charges	112,607	-	-	112,607
6030 Total Expenditures	<u>11,744,700</u>	<u>1,070,039</u>	<u>1,971,639</u>	<u>14,786,378</u>
1200 Net Change in Fund Balances	(873,684)	24,964	59,307	(789,413)
0100 Fund Balance - September 1 (Beginning)	<u>4,910,459</u>	<u>437,780</u>	<u>184,625</u>	<u>5,532,864</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 4,036,775</u>	<u>\$ 462,744</u>	<u>\$ 243,932</u>	<u>\$ 4,743,451</u>

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

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, 2010

**Total Net Change in Fund Balances - Governmental Funds** \$ (789 413)

**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 2010 capital outlays and debt principal payments is to increase (decrease) net assets. 1 427 538

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. (954 285)

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 increase (decrease) net assets. (121 111)

**Change in Net Assets of Governmental Activities** \$ (437 271)

The accompanying notes are an integral part of this statement.

EUSTACE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
AUGUST 31, 2010

EXHIBIT E-1

	Private Purpose Trust Funds	Agency Fund
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ (1,000)	\$ 48,895
Investments - Current	6,423	-
Total Assets	<u>5,423</u>	<u>\$ 48,895</u>
<b>LIABILITIES</b>		
Due to Student Groups	-	\$ 48,895
Total Liabilities	<u>-</u>	<u>\$ 48,895</u>
<b>NET ASSETS</b>		
Unrestricted Net Assets	<u>5,423</u>	
Total Net Assets	<u>\$ 5,423</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, 2010

EXHIBIT E-2

	Private Purpose Trust Funds
<hr/>	
ADDITIONS:	
Local and Intermediate Sources	\$ 2,119
Total Additions	<u>2,119</u>
Change in Net Assets	2,119
Total Net Assets - September 1 (Beginning)	<u>3,304</u>
Total Net Assets - August 31 (Ending)	<u><u>\$ 5,423</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, 2010

**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, 2010

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, 2010

**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 Funds are the Murchison Foundation Donation Fund and the Kirk Memorial Scholarship 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, 2010

**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, 2010

**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	27 144 355	7 993 972	19 150 383	
Furniture & Equipment	2 389 725	1 449 776	939 949	
Construction in Progress	<u>310 363</u>	<u>                    </u>	<u>310 363</u>	
Totals	<u>\$ 29 913 933</u>	<u>\$ 9 443 748</u>		
Change in Net Assets				\$ 20 470 185
<u>Long-term Liabilities at the Beginning of the year</u>			<u>Payable at the Beginning of the Year</u>	
Bonds Payable			<u>\$ 13 965 000</u>	
Change in Net Assets				<u>13 965 000</u>
Net Adjustment to Net Assets				<u>\$ 6 505 185</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED AUGUST 31, 2010

**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:

	Amount	Adjustments to Changes in Net Assets	Adjustments to Net Assets
Current Year Capital Outlay:			
Buildings & Improvements	\$ 491 780	\$	\$
Furniture & Equipment	293 922		
Construction in Progress	186 836		
Total Capital Outlay	972 538	972 538	972 538
Debt Principal Payments:			
Bond Principal	455 000		
Total Principal Payments	\$ 455 000	455 000	455 000
Total Adjustment to Net Assets		\$ 1 427 538	\$ 1 427 538

EUSTACE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2010

**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:

	<u>Amount</u>	<u>Adjustments to Change in Net Assets</u>	<u>Adjustments to Net Assets</u>
Adjustments to Revenue and Deferred Revenue:			
Taxes Collected from Prior Year Levies	\$ 212 958	\$ (212 958)	\$
Uncollected taxes(assumed collectible) from Current Year Levy	321 205	321 205	321 205
Uncollected Taxes (assumed collectible) from Prior Year Levy	1 177 933		1 177 933
Accrued Interest on Debt:			
Prior Year	26 899	26 899	
Current Year	26 093	(26 093)	(26 093)
Bond Issuance Amortization:			
Current Year	22 531	(22 531)	(22 531)
Bond Premium Amortization:			
Current Year	14 791	14 791	14 791
Capital Asset Adjustment	222 424	<u>(222 424)</u>	<u>(222 424)</u>
Total		<u>\$ (121 111)</u>	<u>\$ 1 242 881</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED AUGUST 31, 2010

**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 G-1 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. Transfers were made from the General Fund to cover the deficit in the Capital Projects Fund.
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:

	<u>August 31, 2010</u> <u>Fund Balance</u>
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ 174 402
Nonappropriated Budget Funds	<u>69 530</u>
All Special Revenue Funds	<u>\$ 243 932</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2010

**B. 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, 2010 that were subsequently provided for in the 2010 -2011 budget.

EUSTACE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2010

**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 2009-2010 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 \$9,163,258 and occurred on February 11, 2010. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$12,650,042. The total amount of FDIC coverage at the time of the highest combined balance was \$750,000.

- 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, 2010

- 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, 2010, the amount of the District's cash balance in checking accounts was \$1,975,066. The cash balance in savings, time, money market accounts and certificate of deposit accounts was \$3,129,156.

INVESTMENTS

The District's investments at August 31, 2010, are shown below:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Money Market Accounts	\$ 556 578	\$ 556 578	.0833
Certificates of Deposit	<u>2 572 578</u>	<u>2 572 578</u>	.2521
Total Investments	<u>\$ 3 129 156</u>	<u>\$ 3 129 156</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, 2010

**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 2009-2010 fiscal year was based, was \$476,828,914. The tax rates assessed for the year ended August 31, 2010 to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.04 and \$.218 per \$100 valuation, respectively, for a total of \$1.258 per \$100 valuation. Current tax collections for the year ended August 31, 2010 were 94.3% of the year end adjusted tax levy. As of August 31, 2010, property taxes receivable totaled \$1,400,206 and \$177,833 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, 2010 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	Other Funds	Total
State Entitlements	\$ 205 620	\$	\$	\$ 205 620
State Grants			22 015	22 015
Federal Grants			403 205	403 205
Region 7 ESC	2 714			2 714
Other Governments			26 401	26 401
	<u>208 334</u>	<u>0</u>	<u>451 621</u>	<u>659 955</u>
Total	<u>\$ 208 334</u>	<u>\$ 0</u>	<u>\$ 451 621</u>	<u>\$ 659 955</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED AUGUST 31, 2010

**D. INTERFUND BALANCES AND TRANSFERS**

Interfund balances at August 31, 2010 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, 2010 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, 2010

**E. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at August 31, 2010, were as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Property Taxes	\$ 1 400 206	\$ 177 833	\$	\$ 1 578 039
Other Governments	208 334		451 621	659 955
Accrued Interest	3 727			3 727
Other Funds		<u>99 526</u>		<u>99 526</u>
Totals	<u>\$ 1 612 267</u>	<u>\$ 277 359</u>	<u>\$ 451 621</u>	<u>\$ 2 341 247</u>

Payables at August 31, 2010, were as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Accounts Payable	\$ 24 848	\$	\$	\$ 24 848
Payroll Deductions	59 245			59 245
Accrued Wages	252 893		17 066	269 959
Other Funds	<u>99 526</u>			<u>99 526</u>
Totals	<u>\$ 436 512</u>	<u>\$ 0</u>	<u>\$ 17 066</u>	<u>\$ 453 578</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED AUGUST 31, 2010

**F. CAPITAL ASSET ACTIVITY**

Capital asset activity for the District for the year ended August 31, 2010, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Ending Balance</u>
<b>Governmental Activities:</b>					
Land	\$ 69 490	\$ 0	\$	\$ 0	\$ 69 490
Buildings & Improvements	27 144 355	491 780		455 918	27 931 124
				(160 929)	
Furniture & Equipment	2 389 725	293 922		(20 214)	2 663 433
Construction In Progress	310 363	186 836		(455 918)	0
				(41 281)	
<b>Total at Historical Cost</b>	<u>29 913 933</u>	<u>972 538</u>	<u>0</u>	<u>(222 424)</u>	<u>30 664 047</u>
<b>Less Accumulated Depreciation for:</b>					
Buildings & Improvements	7 993 972	763 127			8 757 099
Furniture and Equipment	1 449 776	191 158			1 640 934
<b>Total Accumulated Depreciation</b>	<u>9 443 748</u>	<u>954 285</u>			<u>10 398 033</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 20 470 185</u>	<u>\$ 18 253</u>	<u>\$ 0</u>	<u>\$ (222 424)</u>	<u>\$ 20 266 014</u>

Depreciation expense was charged to governmental functions as follows:

11	Instruction	\$ 564 683
12	Instructional Resources and Media Services	20 857
23	School Leadership	12 312
31	Guidance, Counseling and Evaluation Services	829
33	Health Service	1 706
34	Student (Pupil) Transportation	121 121
35	Food Services	60 495
36	Cocurricular/Extracurricular Activities	121 064
41	General Administration	21 662
51	Plant Maintenance and Operations	8 227
53	Data Processing Services	21 329
	<b>Total Depreciation Expense</b>	<u>\$ 954 285</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED AUGUST 31, 2010

**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, 2010 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 9/1/09	Issued	Retired	Amounts Outstanding 8/31/10	Interest Current Year
Unlimited Tax Refunding Bonds Series 2003	1.45% to 3.5%	\$ 2 524 949	\$ 1 555 000	\$	\$ 240 000	\$ 1 315 000	\$ 49 902
Unlimited Tax School Building Bonds Series 2005	4.1% to 4.5%	\$ 9 000 000	8 600 000		120 000	8 480 000	389 005
Unlimited Tax School Building Bonds Series 2007	4.25% to 5.00%	\$ 4 000 000	3 810 000		95 000	3 715 000	174 700
Totals			<u>\$ 13 965 000</u>	<u>\$ 0</u>	<u>\$ 455 000</u>	<u>\$ 13 510 000</u>	<u>\$ 613 607</u>

Debt service requirements are as follows:

Year Ended August 31,	General Obligations		
	Principal	Interest	Total Requirements
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	535 000	536 548	1 071 548
2015	555 000	515 022	1 070 022
2016 - 2020	2 875 000	2 186 643	5 061 643
2021 - 2025	3 570 000	1 500 609	5 070 609
2026 - 2030	<u>4 490 000</u>	<u>580 918</u>	<u>5 070 918</u>
Totals	<u>\$ 13 510 000</u>	<u>\$ 7 047 775</u>	<u>\$ 20 557 775</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED AUGUST 31, 2010

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, 2010.

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, 2010 \$1,350,000 of bonds considered defeased are still outstanding.

**H. CHANGES IN LONG-TERM LIABILITIES**

Long-term liabilities activity for the year ended August 31, 2010, 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	\$ 13 965 000	\$ _____	\$ 455 000	\$ 13 510 000	\$ 475 000
Total Governmental Activities Long-term Liabilities	<u>\$ 13 965 000</u>	<u>\$ _____ 0</u>	<u>\$ 455 000</u>	<u>\$ 13 510 000</u>	<u>\$ 475 000</u>

**I. DEFERRED REVENUE**

Deferred revenue at year-end consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Net Tax Revenue	\$ 1 330 196	\$ 168 942	\$ _____	\$ 1 499 138
State Entitlement	617 144			617 144
Tax Escrow	18 972			18 972
Existing Debt Allotment	_____	9 516	_____	9 516
Totals	<u>\$ 1 966 312</u>	<u>\$ 178 458</u>	<u>\$ _____ 0</u>	<u>\$ 2 144 770</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED AUGUST 31, 2010

**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>Other Funds</u>	<u>Total</u>
Property Taxes	\$ 4 812 576	\$ 1 003 403	\$	\$ 5 815 979
Penalties, Interest & Other				
Tax Related Income	127 780	21 294		149 074
Food Sales			196 213	196 213
Investment Income	61 227	5 302	1 080	67 609
Co-curricular Student				
Activities	93 850		105 201	199 051
SSA Flow Through			94 157	94 157
Other	<u>89 057</u>		<u>1 010</u>	<u>90 067</u>
 Total	 <u>\$ 5 184 490</u>	 <u>\$ 1 029 999</u>	 <u>\$ 397 661</u>	 <u>\$ 6 612 150</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 \$345,344.

The District assumed the fiscal agent responsibilities of the Henderson County Shared Services Arrangement as of September 1, 2010.

EUSTACE INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED AUGUST 31, 2010

**L. COMMITMENTS UNDER OPERATING LEASES**

Commitments under operating (noncapitalized) lease agreements for equipment provided for minimum future rental payments as of August 31, 2010, as follows:

Year Ended August 31	Total
2011	\$ 83 203
2012	79 167
2013	56 856
2014	29 731
Total Minimum Rentals	\$ 248 957
Rental Expenditures in Fiscal Year 2010	\$ 88 074

**M. PENSION PLAN**

Plan Description

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

Funding Policy

The state contribution rate is 6.644% and the member contribution rate is 6.4%. In certain instances the District is required to make all or a portion of the state's 6.644% contribution. Contribution requirements are not actuarially determined but are legally established each biennium by the Legislature of the State of Texas.

The District's employees' contributions to the System for the years ending August 31, 2008, 2009 and 2010 were \$484,252, \$484,833 and \$493,543, 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, 2008, 2009 and 2010 were \$85,353, \$95,783 and \$99,794, respectively.

The on behalf amounts contributed by the State, 483,392, are reflected in the financial statements in the General Fund by respective function, in accordance with Governmental Accounting Standards Board Statement No. 24.

EUSTACE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2010

**N. HEALTH CARE**

During the year ended August 31, 2010 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 withholdings to pay premiums for dependents.

All premiums were paid to TRS-ActiveCare, the statewide health coverage program for public education employees administered by Blue Cross and Blue Shield of Texas and Medco Health. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the District and TRS ActiveCare (Blue Cross/Blue Shield) is renewable September 1 of each year and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for Blue Cross/Blue Shield are available for the most recent year and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

**O. SCHOOL DISTRICT RETIREE HEALTH PLAN**

Plan Description

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

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2010, 2009, 2008. Per Texas Insurance Code, Chapters 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school.

The District is allocated a portion of the Medicare Part D retiree drug subsidy that TRS-Care receives. The amount allocated on behalf for the year ended August 31, 2010 is estimated by TRS at \$19,239. This amount is reflected in the financial statements in accordance with Governmental Accounting Standards Board Statement No. 24.

EUSTACE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2010

**P. 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.

**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, 2010 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.

**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 2010 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.

REQUIRED SUPPLEMENTARY INFORMATION

EUSTACE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 5,411,614	\$ 5,272,990	\$ 5,184,490	\$ (88,500)
5800	State Program Revenues	5,432,449	5,591,249	5,602,491	11,242
5900	Federal Program Revenues	89,377	89,377	84,035	(5,342)
5020	Total Revenues	10,933,440	10,953,616	10,871,016	(82,600)
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	6,635,019	6,559,164	6,390,966	168,198
0012	Instructional Resources and Media Services	162,566	162,294	159,056	3,238
0013	Curriculum and Instructional Staff Development	119,785	120,513	111,922	8,591
0021	Instructional Leadership	42,746	44,685	43,168	1,517
0023	School Leadership	639,348	642,749	638,989	3,760
0031	Guidance, Counseling and Evaluation Services	312,578	317,420	310,364	7,056
0032	Social Work Services	39,288	41,721	40,714	1,007
0033	Health Services	118,029	118,495	115,071	3,424
0034	Student (Pupil) Transportation	418,074	594,485	533,566	60,919
0036	Extracurricular Activities	509,660	528,653	485,616	43,037
0041	General Administration	466,742	462,395	433,662	28,733
0051	Facilities Maintenance and Operations	1,067,552	1,185,734	1,154,763	30,971
0052	Security and Monitoring Services	10,750	11,378	5,766	5,612
0053	Data Processing Services	130,234	190,452	179,438	11,014
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	686,226	683,688	2,538
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	345,344	345,344	345,344	-
0099	Other Intergovernmental Charges	100,719	142,368	112,607	29,761
6030	Total Expenditures	11,118,434	12,154,076	11,744,700	409,376
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(184,994)	(1,200,460)	(873,684)	326,776
<b>OTHER FINANCING SOURCES (USES):</b>					
7915	Transfers In	-	500	-	(500)
8911	Transfers Out (Use)	-	(500)	-	500
7080	Total Other Financing Sources (Uses)	-	-	-	-
1200	Net Change in Fund Balances	(184,994)	(1,200,460)	(873,684)	326,776
0100	Fund Balance - September 1 (Beginning)	4,910,459	4,910,459	4,910,459	-
3000	Fund Balance - August 31 (Ending)	\$ 4,725,465	\$ 3,709,999	\$ 4,036,775	\$ 326,776

## COMBINING STATEMENTS

EUSTACE INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2010

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ (18,841)	\$ 142,293	\$ (1,767)
1240	Receivables from Other Governments	-	29,685	32,109	1,767
1000	Total Assets	<u>\$ -</u>	<u>\$ 10,844</u>	<u>\$ 174,402</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
2160	Accrued Wages Payable	\$ -	\$ 10,844	\$ -	\$ -
2000	Total Liabilities	<u>-</u>	<u>10,844</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Reserved For:					
3450	Food Service/Federal or State Funds Restriction	-	-	174,402	-
3490	Other Reserved/Restricted Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>174,402</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 10,844</u>	<u>\$ 174,402</u>	<u>\$ -</u>

255 ESEA II,A Training and Recruiting	262 Title II, D Education Technology	266 Title XIV ARRA State Stabilization	279 Title II, D ARRA - Ed. Technology	283 IDEA, Pt. B ARRA Formula	285 ESEA I,A Improving Basic Program	287 NSLP Equipment Assistance	313 SSA IDEA, Part B Formula
\$ (5,400)	\$ -	\$ (223,997)	\$ -	\$ (76,936)	\$ (5,249)	\$ -	\$ (25,376)
8,086	-	223,997	-	76,936	5,249	-	25,376
<u>\$ 2,686</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 2,686	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<u>2,686</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 2,686</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2010

Data Control Codes	393 Texas Successful Schools Prog.	397 Advanced Placement Incentives	401 Optional Extended Year Program	404 Student Success Initiative	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ 3,477	\$ (536)	\$ (1,301)
1240	Receivables from Other Governments	-	-	536	1,390
1000	Total Assets	<u>\$ -</u>	<u>\$ 3,477</u>	<u>\$ -</u>	<u>\$ 89</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
2160	Accrued Wages Payable	\$ -	\$ -	\$ -	\$ 89
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>89</u>
<b>Fund Balances:</b>					
<b>Reserved For:</b>					
3450	Food Service/Federal or State Funds Restriction	-	3,477	-	-
3490	Other Reserved/Restricted Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>3,477</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 3,477</u>	<u>\$ -</u>	<u>\$ 89</u>

409 Mathematics Instructional Coaches	411 Technology Allotment	415 Kindergarten and Pre-K Grants	429 Texas Fitness Now	437 SSA Special Education	461 Campus Activity Funds	499 Region VII Technology Cooperative	Total Nonmajor Governmental Funds
\$ (5,896)	\$ 2,647	\$ (6,862)	\$ (2,325)	\$ (26,401)	\$ 61,847	\$ -	\$ (190,623)
5,896	1,559	10,309	2,325	26,401	-	-	451,621
<u>\$ -</u>	<u>\$ 4,206</u>	<u>\$ 3,447</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,847</u>	<u>\$ -</u>	<u>\$ 260,998</u>
\$ -	\$ -	\$ 3,447	\$ -	\$ -	\$ -	\$ -	\$ 17,066
-	-	3,447	-	-	-	-	17,066
-	4,206	-	-	-	-	-	182,085
-	-	-	-	-	61,847	-	61,847
-	4,206	-	-	-	61,847	-	243,932
<u>\$ -</u>	<u>\$ 4,206</u>	<u>\$ 3,447</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,847</u>	<u>\$ -</u>	<u>\$ 260,998</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ 197,117	\$ -
5800 State Program Revenues	-	-	5,537	-
5900 Federal Program Revenues	5,104	273,732	594,677	17,669
5020 Total Revenues	<u>5,104</u>	<u>273,732</u>	<u>797,331</u>	<u>17,669</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	4,351	269,923	-	17,669
0012 Instructional Resources and Media Services	-	-	-	-
0013 Curriculum and Instructional Staff Development	-	-	-	-
0021 Instructional Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	109	3,809	-	-
0032 Social Work Services	644	-	-	-
0035 Food Services	-	-	765,319	-
0036 Extracurricular Activities	-	-	-	-
0052 Security and Monitoring Services	-	-	-	-
0053 Data Processing Services	-	-	-	-
6030 Total Expenditures	<u>5,104</u>	<u>273,732</u>	<u>765,319</u>	<u>17,669</u>
1200 Net Change in Fund Balance	-	-	32,012	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>142,390</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 174,402</u>	<u>\$ -</u>

255 ESEA II,A Training and Recruiting	262 Title II, D Education Technology	266 Title XIV ARRA State Stabilization	279 Title II, D ARRA - Ed. Technology	283 IDEA, Pt. B ARRA Formula	285 ESEA I,A Improving Basic Program	287 NSLP Equipment Assistance	313 SSA IDEA, Part B Formula
\$ -	\$ -	\$ -	\$ -	\$ 94,158	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
70,512	2,414	252,382	4,090	76,936	97,399	15,748	25,376
<u>70,512</u>	<u>2,414</u>	<u>252,382</u>	<u>4,090</u>	<u>171,094</u>	<u>97,399</u>	<u>15,748</u>	<u>25,376</u>
70,512	2,414	141,457	4,090	120,240	97,399	-	14,521
-	-	23,410	-	-	-	-	-
-	-	2,400	-	50,854	-	-	-
-	-	-	-	-	-	-	5,740
-	-	-	-	-	-	-	5,115
-	-	-	-	-	-	-	-
-	-	-	-	-	-	15,748	-
-	-	4,019	-	-	-	-	-
-	-	2,215	-	-	-	-	-
-	-	78,881	-	-	-	-	-
<u>70,512</u>	<u>2,414</u>	<u>252,382</u>	<u>4,090</u>	<u>171,094</u>	<u>97,399</u>	<u>15,748</u>	<u>25,376</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes	393 Texas Successful Schools Prog.	397 Advanced Placement Incentives	401 Optional Extended Year Program	404 Student Success Initiative
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	2,260	5,355	10,850
5900 Federal Program Revenues	-	-	-	-
5020 Total Revenues	<u>-</u>	<u>2,260</u>	<u>5,355</u>	<u>10,850</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	1,110	-	5,355	10,850
0012 Instructional Resources and Media Services	-	-	-	-
0013 Curriculum and Instructional Staff Development	-	-	-	-
0021 Instructional Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	-	-	-	-
0032 Social Work Services	-	-	-	-
0035 Food Services	-	-	-	-
0036 Extracurricular Activities	-	-	-	-
0052 Security and Monitoring Services	-	-	-	-
0053 Data Processing Services	-	-	-	-
6030 Total Expenditures	<u>1,110</u>	<u>-</u>	<u>5,355</u>	<u>10,850</u>
1200 Net Change in Fund Balance	(1,110)	2,260	-	-
0100 Fund Balance - September 1 (Beginning)	<u>1,110</u>	<u>1,217</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ 3,477</u>	<u>\$ -</u>	<u>\$ -</u>

409 Mathematics Instructional Coaches	411 Technology Allotment	415 Kindergarten and Pre-K Grants	429 Texas Fitness Now	437 SSA Special Education	461 Campus Activity Funds	499 Region VII Technology Cooperative	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 500	\$ 105,886	\$ -	\$ 397,661
5,896	42,816	70,001	10,130	26,401	-	18,000	197,246
-	-	-	-	-	-	-	1,436,039
<u>5,896</u>	<u>42,816</u>	<u>70,001</u>	<u>10,130</u>	<u>26,901</u>	<u>105,886</u>	<u>18,000</u>	<u>2,030,946</u>
5,896	41,643	70,001	10,130	-	-	-	887,561
-	-	-	-	-	-	-	23,410
-	-	-	-	-	-	-	53,254
-	-	-	-	26,901	-	-	32,641
-	-	-	-	-	-	-	9,033
-	-	-	-	-	-	-	644
-	-	-	-	-	-	-	781,067
-	-	-	-	-	80,914	-	84,933
-	-	-	-	-	-	-	2,215
-	-	-	-	-	-	18,000	96,881
<u>5,896</u>	<u>41,643</u>	<u>70,001</u>	<u>10,130</u>	<u>26,901</u>	<u>80,914</u>	<u>18,000</u>	<u>1,971,639</u>
-	1,173	-	-	-	24,972	-	59,307
-	3,033	-	-	-	36,875	-	184,625
<u>\$ -</u>	<u>\$ 4,206</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 61,847</u>	<u>\$ -</u>	<u>\$ 243,932</u>

REQUIRED TEA SCHEDULES

EUSTACE INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED AUGUST 31, 2010

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2001 and prior years	Various	Various	\$ Various
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	1.040000	0.228040	406,409,982
2009	1.040000	0.218000	453,760,080
2010 (School year under audit)	1.040000	0.218000	476,828,914
100 TOTALS			

	(10) Beginning Balance 9/1/2009	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2010
\$	460,678	\$ -	\$ 6,724	\$ 593	\$ (4,952)	\$ 448,409
	58,349	-	1,808	96	(2,325)	54,120
	66,520	-	3,248	172	(2,900)	60,200
	70,563	-	3,317	24	(2,995)	64,227
	84,221	-	6,367	271	(1,879)	75,704
	126,788	-	13,135	1,993	(2,388)	109,272
	164,386	-	24,908	3,604	(3,261)	132,613
	172,432	-	34,589	7,584	(1,513)	128,746
	277,619	-	88,963	18,648	(3,370)	166,638
	-	5,998,508	4,629,517	970,418	(60,463)	338,110
\$	<u>1,481,556</u>	<u>\$ 5,998,508</u>	<u>\$ 4,812,576</u>	<u>\$ 1,003,403</u>	<u>\$ (86,046)</u>	<u>\$ 1,578,039</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2010-2011  
 GENERAL AND SPECIAL REVENUE FUNDS  
 AUGUST 31, 2010

**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	\$ 670	\$ 63,385	\$ 172,680	\$ 116,123	\$ -	\$ -	352,858
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	3,280	-	-	-	3,280
6212	Audit Services	-	-	-	19,500	-	-	19,500
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	112,607	-	-	-	-	112,607
621X	Other Professional Services	40	2,462	3	326	-	-	2,831
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	1,179	-	-	1,179
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	3,028	4,205	1,030	-	8,263
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	5,248	4,601	2,097	3,007	-	-	14,953
6410	Travel, Subsistence, Stipends	7,339	2,663	4,859	275	-	-	15,136
6420	Ins. and Bonding Costs	3,785	-	-	-	-	-	3,785
6430	Election Costs	-	-	-	-	-	-	-
6490	Miscellaneous Operating	6,184	412	1,482	162	3,637	-	11,877
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	<b>TOTAL</b>	<b>\$ 23,266</b>	<b>\$ 186,130</b>	<b>\$ 187,429</b>	<b>\$ 144,777</b>	<b>\$ 4,667</b>	<b>\$ -</b>	<b>\$ 546,269</b>

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 13,716,340

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 972,538
Total Debt & Lease(6500)	(11)	-
Plant Maintenance (Function 51, 6100-6400)	(12)	1,154,763
Food (Function 35, 6341 and 6499)	(13)	344,349
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		144,777

SubTotal:

2,616,426

Net Allowed Direct Cost

\$ 11,099,913

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 27,931,124
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)	\$ 2,663,433
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 366,000
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.

\$112,607 in 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, 2010

**UNAUDITED**

1	Total General Fund Balance as of 8/31/10 (Exhibit C-1 object 3000 for the General Fund Only)		\$ 4,036,775
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)	2,000,000	
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 two month's average cash disbursements during the fiscal year.	2,178,858	
6	Estimate of delayed payments from state sources (58xx).	205,620	
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.	-	
8	Estimate of delayed payments from federal sources (59xx)	403,206	
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	Adjustment to meet Board Policy	-	
11	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)		<u>4,787,684</u>
12	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)		<u>\$ (750,909)</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, 2010

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	\$ 194,793	\$ 194,793	\$ 197,117	\$ 2,324
5800	State Program Revenues	6,000	6,000	5,537	(463)
5900	Federal Program Revenues	539,000	539,000	594,677	55,677
5020	Total Revenues	739,793	739,793	797,331	57,538
EXPENDITURES:					
0035	Food Services	773,458	773,458	765,319	8,139
6030	Total Expenditures	773,458	773,458	765,319	8,139
1200	Net Change in Fund Balances	(33,665)	(33,665)	32,012	65,677
0100	Fund Balance - September 1 (Beginning)	142,390	142,390	142,390	-
3000	Fund Balance - August 31 (Ending)	\$ 108,725	\$ 108,725	\$ 174,402	\$ 65,677

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, 2010

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 939,323	\$ 939,323	\$ 1,029,999	\$ 90,677
5800	State Program Revenues	51,242	51,242	65,004	13,762
5020	Total Revenues	990,565	990,565	1,095,003	104,439
<b>EXPENDITURES:</b>					
Debt Service:					
0071	Debt Service - Principal on Long Term Debt	455,000	455,000	455,000	-
0072	Debt Service - Interest on Long Term Debt	613,608	613,608	613,608	-
0073	Debt Service - Bond Issuance Cost and Fees	-	1,431	1,431	-
6030	Total Expenditures	1,068,608	1,070,039	1,070,039	-
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(78,043)	(79,475)	24,964	104,439
<b>OTHER FINANCING SOURCES (USES):</b>					
7915	Transfers In	-	500	-	(500)
8911	Transfers Out (Use)	-	(500)	-	500
7080	Total Other Financing Sources (Uses)	-	-	-	-
1200	Net Change in Fund Balances	(78,043)	(79,475)	24,964	104,439
0100	Fund Balance - September 1 (Beginning)	437,780	437,780	437,780	-
3000	Fund Balance - August 31 (Ending)	\$ 359,737	\$ 358,305	\$ 462,744	\$ 104,439

COMPLIANCE, INTERNAL CONTROL AND FEDERAL AWARDS

# SMITH, LAMBRIGHT & ASSOCIATES, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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

### 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, 2010, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 16, 2010. 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.

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

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

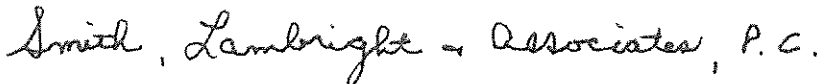
We noted certain matters that we reported to the Board of Trustees and management of the District in a separate letter dated November 16, 2010.

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.  
Certified Public Accountants

November 16, 2010

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

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

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REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL  
EFFECT ON EACH MAJOR PROGRAM 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 District's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2010. 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*. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2010.

### Internal Control Over Compliance

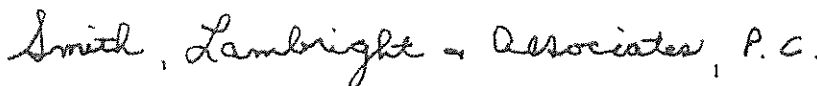
The management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB *Circular A-133*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

November 16, 2010

EUSTACE INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2010

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  X  no
- Significant deficiency(ies) identified that are not considered to be material weaknesses? \_\_\_\_\_ yes  X  none reported

Noncompliance material to financial statements noted? \_\_\_\_\_ yes  X  no

Federal Awards:

Internal control over major programs:

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

Identification of major programs:

CFDA Number	Name of Federal Program or Cluster
	ESEA - Title I Part A Cluster:
84.010A	ESEA, Title I, Part A
84.389A	ESEA, Title I, Part A, ARRA
84.314A	Title XIV, SFSF, ARRA

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

Auditee qualified as low risk auditee?  X  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, 2010

II. Financial Statement Findings

The audit disclosed no finding required to be reported.

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, 2010

N/A

EUSTACE INDEPENDENT SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED AUGUST 31, 2010

N/A

EUSTACE INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED AUGUST 31, 2010

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs**	84.010A	10-610101107905	\$ 262,888
ESEA, Title I, Part A - Improving Basic Programs**	84.010A	11-610101107905	10,844
Total CFDA Number 84.010A			273,732
SSA - IDEA - Part B, Formula	84.027	10-660001107905	25,376
Career and Technical - Basic Grant	84.048	10-420006107905	17,669
ESEA Title IV, Pt. A - Safe and Drug-Free Schools	84.186A	10-691001107905	5,104
Title II, Part D -Enhancing Ed. Through Technology	84.318	10-630001107905	2,414
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	10-694501107905	67,826
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	11-694501107905	2,686
Total CFDA Number 84.367A			70,512
Title II D Enhancing Ed. Through Technology - ARRA	84.386	10-553001107905	4,090
ESEA, Title I, A - ARRA - Improving Basic Prog**	84.389	10-551001107905	97,399
IDEA, Part B, Formula - ARRA	84.391	10-554001107905	76,936
Title XIV, State Fiscal Stabilization Fund - ARRA	84.394	10-557001107905	252,382
Total Passed Through State Department of Education			\$ 825,614
<b>TOTAL DEPARTMENT OF EDUCATION</b>			<b>\$ 825,614</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through the State Department of Agriculture</u>			
School Breakfast Program*	10.553		\$ 135,558
National School Lunch Program - Cash Assistance*	10.555		425,748
National School Lunch Prog. - Non-Cash Assistance*	10.555		33,371
Total CFDA Number 10.555			459,119
NSLP Equipment Assistance Grant	10.579	6TX310385	15,748
Total Passed Through the State Department of Agriculture			\$ 610,425
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			<b>\$ 610,425</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 1,436,039</b>

\*Clustered Programs as required by Compliance Supplement March, 2010.

\*\*Clustered Programs as required by Compliance Supplement March, 2010.

Note A - Funds received from ESC Region 7 for Head Start reimbursements of \$84,035 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, 2010

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.