

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

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

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EUSTACE INDEPENDENT SCHOOL DISTRICT
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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, 2011 at a meeting of the board of school trustees of such school district on the _____ day of _____, 2011.

Signature of Board Secretary

Signature of Board President

If the board of trustees disapproved of the auditor's report, the reason(s) for disapproving it is(are):
(attach list as necessary)

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

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

Cheri E. Kirkland, CPA

P. O. Box 912
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Athens, Texas 75751
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UNQUALIFIED OPINIONS 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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's 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, 2011, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

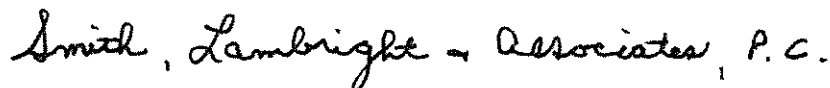
In accordance with *Government Auditing Standards*, we have also issued our report dated December 5, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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

December 5, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS



A WORLD CLASS EDUCATION

Eustace Independent School District

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

903-425-5151
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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, 2011. 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 \$13,060,183.

During the year, the District had expenses that were \$106,589 less than the \$11,331,845 generated in tax and other revenues for governmental programs. This compares to last year when expenses were more than revenues by \$ 2,080,047.

The General Fund ended the year with a fund balance of \$4,055,818.

The resources available for appropriation were \$21,052 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 increased from \$12,953,594 to \$13,060,183. 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 \$5,471,518. This increase in governmental net assets was the result of the following factor. First, the District's expenditures did not exceed the revenues by about \$106,589. Second, the District paid bonds and other long-term debt in the amount of \$475,000, and acquired capital assets in the amount of \$48,947. Third, the District recorded depreciation of \$988,330.

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.
- Some vacated positions were not refilled.

The cost of all governmental activities this year was \$15,901,427 compared to \$14,320,059 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 \$6,031,669 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 \$4,934,090 which is higher than last year's total of \$4,743,451.

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 \$19,772,050 in net capital assets. These assets include all vehicles, facilities, and equipment. This amount represents a net decrease of \$493,964 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 \$13,308,014 in bonded debt at year-end.

Economic Factors and Next Year's Budget Rate

The budget for 2010-2011 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 2010-2011 budget was adopted, all these indicators were considered. The current budget reflects a 1.99% **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

Governmental Activities	2010	2011
Current and Other Assets	\$7,511,161.00	\$7,817,454.00
Capital Assets	<u>\$20,266,014.00</u>	<u>\$19,772,050.00</u>
Total Assets	<u>\$27,777,175.00</u>	<u>\$27,589,504.00</u>
Current Liabilities	\$1,025,777.00	\$1,221,307.00
Long Term Liabilities	<u>\$13,797,804.00</u>	<u>\$13,308,014.00</u>
Total Liabilities	<u>\$14,823,581.00</u>	<u>\$14,529,321.00</u>
Investment in Capital Assets	\$6,737,098.00	\$6,710,393.00
Restricted Federal & State Programs	\$182,085.00	\$197,170.00
Restricted for Debt Service	\$462,744.00	\$506,846.00
Restricted for Capital Projects	\$0.00	\$74,126.00
Restricted for Other Purposes	\$61,847.00	\$100,130.00
Unrestricted Assets	<u>\$5,509,820.00</u>	<u>\$5,471,518.00</u>
Total Net Assets	<u>\$12,953,594.00</u>	<u>\$13,060,183.00</u>

Eustace Independent School District

Table II Statement of Activities

Primary Government

Governmental Activities

Program Revenues

	2010	2011
Charges for Services	\$496,707.00	\$1,327,663.00
Operating Grants & Contributions	\$2,135,916.00	\$3,348,508.00
Total Program Revenues	\$2,632,623.00	\$4,676,171.00

Expenses

Instructional, Curriculum, Media	\$8,137,339.00	\$9,352,955.00
Instructional / School Leadership	\$727,110.00	\$978,721.00
Student Support Services	\$950,665.00	\$1,420,068.00
Child Nutrition	\$818,441.00	\$833,843.00
Co-Curricular Activities	\$691,613.00	\$652,606.00
General Administration	\$455,324.00	\$486,279.00
Plant Maintenance, Security, Data Processing	\$1,454,571.00	\$1,466,031.00
Debit Services	\$621,973.00	\$602,088.00
Capital Outlay	\$5,072.00	\$0.00
Intergovernmental Charges	\$345,344.00	\$0.00
Other Intergovernmental Charges	\$112,607.00	\$108,836.00
Total Expenses	\$14,320,059.00	\$15,901,427.00

General Revenues

Maintenance & Operating Taxes	\$4,898,681.00	\$4,911,002.00
Debt Service Taxes	\$1,025,545.00	\$1,120,667.00
State Aide - Formula Grants	\$5,116,316.00	\$4,700,906.00
Unrestricted Grants / Contributions	\$132,583.00	\$78,469.00
Investment Earnings	\$67,610.00	\$48,111.00
Miscellaneous Revenue	\$9,430.00	\$11,951.00
Special Item - SSA Assets Transferred In	\$0.00	\$460,739.00
Total General Revenue	\$11,250,165.00	\$11,331,845.00

Change in Net Assets	(\$437,271)	\$106,589.00
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Net Assets - Beginning	\$13,390,865	\$12,953,594
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Net Assets - Ending	\$12,953,594	\$13,060,183
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BASIC FINANCIAL STATEMENTS

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

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 4,505,551
1120 Current Investments	1,074,679
1220 Property Taxes Receivable (Delinquent)	1,515,790
1230 Allowance for Uncollectible Taxes	(75,789)
1240 Due from Other Governments	520,988
1410 Deferred Expenses	29,878
1420 Capitalized Bond and Other Debt Issuance Costs	246,357
Capital Assets:	
1510 Land	84,656
1520 Buildings, Net	18,817,078
1530 Furniture and Equipment, Net	870,316
1000 Total Assets	27,589,504
LIABILITIES	
2110 Accounts Payable	13,459
2150 Payroll Deductions & Withholdings	70,153
2160 Accrued Wages Payable	282,638
2200 Accrued Expenses	24,301
2300 Deferred Revenues	830,756
Noncurrent Liabilities	
2501 Due Within One Year	495,000
2502 Due in More Than One Year	12,813,014
2000 Total Liabilities	14,529,321
NET ASSETS	
3200 Invested in Capital Assets, Net of Related Debt	6,710,393
3820 Restricted for Federal and State Programs	197,170
3850 Restricted for Debt Service	506,846
3870 Restricted for Campus Activities	74,126
3890 Restricted for Other Purposes	100,130
3900 Unrestricted Net Assets	5,471,518
3000 Total Net Assets	\$ 13,060,183

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, 2011

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Expenses	3 Charges for Services	4 Operating Grants and Contributions
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 9,045,523	\$ 672,065	\$ 2,152,022	\$ (6,221,436)
12 Instructional Resources and Media Services	178,201	-	3,845	(174,356)
13 Curriculum and Staff Development	129,231	-	1,188	(128,043)
21 Instructional Leadership	334,751	240,928	13,166	(80,657)
23 School Leadership	643,970	-	29,475	(614,495)
31 Guidance, Counseling and Evaluation Services	749,371	38,548	407,460	(303,363)
32 Social Work Services	39,312	-	1,932	(37,380)
33 Health Services	114,067	-	4,908	(109,159)
34 Student (Pupil) Transportation	517,318	-	11,141	(506,177)
35 Food Services	833,843	182,449	606,522	(44,872)
36 Extracurricular Activities	652,606	150,563	9,919	(492,124)
41 General Administration	486,279	-	15,975	(470,304)
51 Plant Maintenance and Operations	1,230,260	43,110	21,858	(1,165,292)
52 Security and Monitoring Services	13,692	-	-	(13,692)
53 Data Processing Services	222,079	-	69,097	(152,982)
72 Debt Service - Interest on Long Term Debt	592,916	-	-	(592,916)
73 Debt Service - Bond Issuance Cost and Fees	9,172	-	-	(9,172)
99 Other Intergovernmental Charges	108,836	-	-	(108,836)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 15,901,427	\$ 1,327,663	\$ 3,348,508	(11,225,256)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	4,911,002
DT	Property Taxes, Levied for Debt Service	1,120,667
SF	State Aid - Formula Grants	4,700,906
GC	Grants and Contributions not Restricted	78,469
IE	Investment Earnings	48,111
MI	Miscellaneous Local and Intermediate Revenue	11,951
S1	Special Item - SSA Assets Transferred In	460,739
TR	Total General Revenues and Special Items	11,331,845
CN	Change in Net Assets	106,589
NB	Net Assets--Beginning	12,953,594
NE	Net Assets--Ending	\$ 13,060,183

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

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

EXHIBIT C-1

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110	\$ 3,968,152	\$ 457,741	\$ 79,658	\$ 4,505,551
1120	1,074,679	-	-	1,074,679
1220	1,336,922	178,868	-	1,515,790
1230	(66,846)	(8,943)	-	(75,789)
1240	213,612	-	307,376	520,988
1260	-	99,526	-	99,526
1410	29,878	-	-	29,878
1000	<u>\$ 6,556,397</u>	<u>\$ 727,192</u>	<u>\$ 387,034</u>	<u>\$ 7,670,623</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110	\$ 13,459	\$ -	\$ -	\$ 13,459
2150	70,153	-	-	70,153
2160	267,030	-	15,608	282,638
2170	99,526	-	-	99,526
2300	2,050,411	220,346	-	2,270,757
2000	<u>2,500,579</u>	<u>220,346</u>	<u>15,608</u>	<u>2,736,533</u>
Fund Balances:				
Nonspendable Fund Balance:				
3430	29,878	-	-	29,878
Restricted Fund Balance:				
3450	-	-	197,170	197,170
3480	-	506,846	-	506,846
3490	-	-	100,130	100,130
Committed Fund Balance:				
3510	2,000,000	-	-	2,000,000
Assigned Fund Balance:				
3590	-	-	74,126	74,126
3600	2,025,940	-	-	2,025,940
3000	<u>4,055,818</u>	<u>506,846</u>	<u>371,426</u>	<u>4,934,090</u>
4000	<u>\$ 6,556,397</u>	<u>\$ 727,192</u>	<u>\$ 387,034</u>	<u>\$ 7,670,623</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, 2011

Total Fund Balances - Governmental Funds \$ 4 934 090

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

Data
Control
Codes

1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$30,664,047, and the accumulated depreciation was \$10,398,033. 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 \$13,510,000. 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.	6 756 014
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 \$268,888, and the liabilities included unamortized premium on issuance of debt of \$287,804. The net effect of these debt issuance assets and liabilities is to increase (decrease) net assets.	(18 916)
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 2011 capital outlays and debt principal payments is to increase (decrease) net assets.	501 118
4 The 2011 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.	(988 330)
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.	1 876 207
19 Net Assets of Governmental Activities	\$ 13 060 183

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, 2011

EXHIBIT C-3

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 5,320,370	\$ 1,156,147	\$ 1,262,160	\$ 7,738,677
5800 State Program Revenues	5,220,093	-	199,329	5,419,422
5900 Federal Program Revenues	86,246	-	2,622,215	2,708,461
5020 Total Revenues	<u>10,626,709</u>	<u>1,156,147</u>	<u>4,083,704</u>	<u>15,866,560</u>
EXPENDITURES:				
Current:				
0011 Instruction	6,020,698	-	2,440,829	8,461,527
0012 Instructional Resources and Media Services	157,341	-	-	157,341
0013 Curriculum and Instructional Staff Development	129,231	-	-	129,231
0021 Instructional Leadership	75,430	-	250,798	326,228
0023 School Leadership	631,658	-	-	631,658
0031 Guidance, Counseling and Evaluation Services	318,848	-	427,954	746,802
0032 Social Work Services	39,312	-	-	39,312
0033 Health Services	110,255	-	-	110,255
0034 Student (Pupil) Transportation	387,813	-	943	388,756
0035 Food Services	-	-	770,064	770,064
0036 Extracurricular Activities	471,149	-	63,999	535,148
0041 General Administration	463,122	-	-	463,122
0051 Facilities Maintenance and Operations	1,181,663	-	41,269	1,222,932
0052 Security and Monitoring Services	13,692	-	-	13,692
0053 Data Processing Services	144,251	-	61,854	206,105
Debt Service:				
0071 Principal on Long Term Debt	-	475,000	-	475,000
0072 Interest on Long Term Debt	-	594,708	-	594,708
0073 Bond Issuance Cost and Fees	-	1,431	-	1,431
Capital Outlay:				
0081 Facilities Acquisition and Construction	26,118	-	-	26,118
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	368,344	-	10,000	378,344
0099 Other Intergovernmental Charges	108,836	-	-	108,836
6030 Total Expenditures	<u>10,647,761</u>	<u>1,071,139</u>	<u>4,067,710</u>	<u>15,786,610</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(21,052)</u>	<u>85,008</u>	<u>15,994</u>	<u>79,950</u>
OTHER FINANCING SOURCES (USES):				
7949 Other Resources	40,095	-	151,595	191,690
8949 Other (Uses)	-	(40,906)	(40,095)	(81,001)
7080 Total Other Financing Sources (Uses)	<u>40,095</u>	<u>(40,906)</u>	<u>111,500</u>	<u>110,689</u>
1200 Net Change in Fund Balances	19,043	44,102	127,494	190,639
0100 Fund Balance - September 1 (Beginning)	<u>4,036,775</u>	<u>462,744</u>	<u>243,932</u>	<u>4,743,451</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 4,055,818</u>	<u>\$ 506,846</u>	<u>\$ 371,426</u>	<u>\$ 4,934,090</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, 2011

Total Net Change in Fund Balances - Governmental Funds \$ 190 639

**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 2011 capital outlays and debt principal payments is to increase (decrease) net assets. 501 118

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. (988 330)

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. 403 162

Change in Net Assets of Governmental Activities \$ 106 589

The accompanying notes are an integral part of this statement.

EUSTACE INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 AUGUST 31, 2011

EXHIBIT E-1

	Private Purpose Trust Funds	Agency Fund
ASSETS		
Cash and Cash Equivalents	\$ 715	\$ 45,191
Investments - Current	5,860	-
Total Assets	6,575	\$ 45,191
LIABILITIES		
Due to Student Groups	-	\$ 45,191
Total Liabilities	-	\$ 45,191
NET ASSETS		
Restricted for Scholarships	3,360	
Restricted for Other Purposes	3,215	
Total Net Assets	\$ 6,575	

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, 2011

EXHIBIT E-2

	Private Purpose Trust Funds
ADDITIONS:	
Local and Intermediate Sources	\$ 1,152
Total Additions	<u>1,152</u>
Change in Net Assets	1,152
Total Net Assets - September 1 (Beginning)	<u>5,423</u>
Total Net Assets - August 31 (Ending)	<u><u>\$ 6,575</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, 2011

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, 2011

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, 2011

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 STATEMENTS
YEAR ENDED AUGUST 31, 2011

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.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2011

I. FUND BALANCE

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below:

1. **Nonspendable fund balance** - includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable.
2. **Restricted Fund Balance** - includes amounts that are restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions of enabling legislation.
3. **Committed Fund Balance** - includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. Those committed amounts cannot be used for any other purposes unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
4. **Assigned Fund Balance** - includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by the Board or by other officials to which the Board has delegated the authority to assign amounts to be used for specific purposes. When it is appropriate for fund balance to be assigned, the Board delegates the responsibility to assign funds to the Superintendent or his/her designee.
5. **Unassigned Fund Balance** - is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District will utilize funds in the following spending order: Restricted, Committed, Assigned and Unassigned.

J. 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, 2011

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	27 931 124	8 757 099	19 174 025	
Furniture & Equipment	<u>2 663 433</u>	<u>1 640 934</u>	<u>1 022 499</u>	
Totals	<u>\$ 30 664 047</u>	<u>\$ 10 398 033</u>		
Change in Net Assets				\$ 20 266 014
<u>Long-term Liabilities at the Beginning of the year</u>			<u>Payable at the Beginning of the Year</u>	
Bonds Payable			<u>\$ 13 510 000</u>	
Change in Net Assets				<u>13 510 000</u>
Net Adjustment to Net Assets				<u>\$ 6 756 014</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2011

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

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

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
Current Year Capital Outlay:			
Buildings & Improvements	\$ 26 118	\$	\$
Furniture & Equipment	<u> </u>		
Total Capital Outlay	<u>26 118</u>	<u>26 118</u>	<u>26 118</u>
Debt Principal Payments:			
Bond Principal	<u>475 000</u>		
Total Principal Payments	<u>\$ 475 000</u>	<u>475 000</u>	<u>475 000</u>
Total Adjustment to Net Assets		<u>\$ 501 118</u>	<u>\$ 501 118</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2011

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	\$ 324 047	\$ (324 047)	\$
Uncollected taxes (assumed collectible) from Current Year Levy	264 910	264 910	264 910
Uncollected Taxes (assumed collectible) from Prior Year Levy	1 175 091		1 175 091
Accrued Interest on Debt:			
Prior Year	26 093	26 093	
Current Year	24 301	(24 301)	(24 301)
Bond Issuance Amortization:			
Current Year	22 531	(22 531)	(22 531)
Bond Premium Amortization:			
Current Year	14 790	14 790	14 790
Capital Asset Adjustments:			
District Assets	7 509	7 509	7 509
SSA Assets Transferred In	460 739	<u>460 739</u>	<u>460 739</u>
Total		<u>\$ 403 162</u>	<u>\$ 1 876 207</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2011

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:

	August 31, 2011 Fund Balance
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ 193 693
Nonappropriated Budget Funds	177 733
All Special Revenue Funds	\$ 371 426

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2011

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The District made expenditures in excess of the budgeted amount in one functional area of the General Fund due to an audit adjustment for TRS on-behalf expenditures. This was offset by an increase to the TRS on-behalf revenue. Therefore there was no net effect on the budget.

C. ENCUMBRANCE ACCOUNTING

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders or contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31, and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at August 31, 2011 that were subsequently provided for in the 2011 -2012 budget.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2011

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 2010-2011 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 \$8,035,627 and occurred on February 22, 2011. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$9,388,581. The total amount of FDIC coverage at the time of the highest combined balance was \$750,000.

In addition to the depository bank, the District had funds invested at another bank. The largest combined balances of cash, savings and time deposit accounts amounted to \$520,383 and occurred on August 31, 2011. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$741,330. The total amount of FDIC coverage at the time of the highest combined balance \$250,000.

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2011

- 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.
- 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, 2011, the amount of the District's cash balance in checking accounts was \$4,551,457. The cash balance in savings, time, money market accounts and certificate of deposit accounts was \$1,080,539.

INVESTMENTS

The District's investments at August 31, 2011, are shown below:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
Money Market Accounts	\$ 554 295	\$ 554 295	.0833
Certificates of Deposit	<u>526 244</u>	<u>526 244</u>	.0822
Total Investments	<u>\$ 1 080 539</u>	<u>\$ 1 080 539</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, 2011

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 2010-2011 fiscal year was based, was \$479,576,888. The tax rates assessed for the year ended August 31, 2011 to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.04 and \$.2363 per \$100 valuation, respectively, for a total of \$1.2763 per \$100 valuation. Current tax collections for the year ended August 31, 2011 were 95.4% of the year end adjusted tax levy. As of August 31, 2011, property taxes receivable totaled \$1,336,922 and \$178,868 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, 2011 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	\$ 209 592	\$	\$	\$ 209 592
State Grants			31 883	31 883
Federal Grants			275 493	275 493
Region 7 ESC	4 020			4 020
Total	<u>\$ 213 612</u>	<u>\$ 0</u>	<u>\$ 307 376</u>	<u>\$ 520 988</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2011

D. INTERFUND BALANCES AND TRANSFERS

Interfund balances at August 31, 2011 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, 2011 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, 2011

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2011, were as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Property Taxes	\$ 1 336 922	\$ 178 868	\$	\$ 1 515 790
Other Governments	213 612		307 376	520 988
Other Funds		<u>99 526</u>		<u>99 526</u>
Totals	<u>\$ 1 550 534</u>	<u>\$ 278 394</u>	<u>\$ 307 376</u>	<u>\$ 2 136 304</u>

Payables at August 31, 2011, were as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Accounts Payable	\$ 13 459	\$	\$	\$ 13 459
Payroll Deductions	70 153			70 153
Accrued Wages	267 030		15 608	282 638
Other Funds	<u>99 526</u>			<u>99 526</u>
Totals	<u>\$ 450 168</u>	<u>\$ 0</u>	<u>\$ 15 608</u>	<u>\$ 465 776</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2011

F. CAPITAL ASSET ACTIVITY

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Ending Balance</u>
Governmental Activities:					
Land	\$ 69 490	\$	\$	\$	\$ 69 490
Buildings & Improvements	27 931 124	26 118		200	27 957 442
Furniture & Equipment	2 663 433			7 309	2 670 742
Land - SSA				15 166	15 166
Buildings & Improvements - SSA				559 382	559 382
Furniture & Equipment - SSA				200 111	200 111
Total at Historical Cost	<u>30 664 047</u>	<u>26 118</u>	<u>0</u>	<u>782 168</u>	<u>31 472 333</u>
Less Accumulated Depreciation for:					
Buildings & Improvements	8 757 099	764 403			9 521 502
Furniture & Equipment	1 640 934	190 898			1 831 832
Buildings & Improvements - SSA		13 584		164 660	178 244
Furniture and Equipment - SSA		19 445		149 260	168 705
Total Accumulated Depreciation	<u>10 398 033</u>	<u>988 330</u>	<u>0</u>	<u>313 920</u>	<u>11 700 283</u>
Governmental Activities Capital Assets, Net	<u>\$ 20 266 014</u>	<u>\$ (962 212)</u>	<u>\$ 0</u>	<u>\$ 468 248</u>	<u>\$ 19 772 050</u>

The District assumed the fiscal agent responsibilities of the Henderson County Shared Services Arrangement as of September 1, 2010. The effects on the financial statements are reported as a Special Item on Exhibit B-1.

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2011

District depreciation expense was charged to governmental functions as follows:

11	Instruction	\$ 572 133
12	Instructional Resources and Media Services	20 860
23	School Leadership	12 312
31	Guidance, Counseling and Evaluation Services	829
33	Health Service	1 706
34	Student (Pupil) Transportation	120 739
35	Food Services	63 779
36	Cocurricular/Extracurricular Activities	117 458
41	General Administration	23 157
51	Plant Maintenance and Operations	6 354
53	Data Processing Services	<u>15 974</u>
	Total Depreciation Expense	<u>\$ 955 301</u>

SSA deprecation expense was charged to governmental functions as follows:

11	Instruction	\$ 11 863
21	Instructional Leadership	8 523
31	Guidance, Counseling and Evaluation Services	1 740
33	Health Service	2 106
34	Student (Pupil) Transportation	7 823
51	Plant Maintenance and Operations	<u>974</u>
	Total SSA Depreciation Expense	<u>\$ 33 029</u>
	Total	<u><u>\$ 988 330</u></u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2011

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, 2011 is as follows:

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issue</u>	<u>Amounts Outstanding 9/1/10</u>	<u>Issued</u>	<u>Retired</u>	<u>Amounts Outstanding 8/31/11</u>	<u>Interest Current Year</u>
Unlimited Tax Refunding Bonds Series 2003	1.45% to 3.5%	\$ 2 524 949	\$ 1 315 000	\$	\$ 245 000	\$ 1 070 000	\$ 41 503
Unlimited Tax School Building Bonds Series 2005	4.1% to 4.5%	\$ 9 000 000	8 480 000		130 000	8 350 000	383 380
Unlimited Tax School Building Bonds Series 2007	4.25% to 5.00%	\$ 4 000 000	3 715 000		100 000	3 615 000	169 825
Totals			<u>\$ 13 510 000</u>	<u>\$</u>	<u>0</u>	<u>\$ 13 035 000</u>	<u>\$ 594 708</u>

Debt service requirements are as follows:

<u>Year Ended August 31,</u>	<u>General Obligations</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
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	525 000	486 968	1 011 968
2017 - 2021	3 005 000	2 059 961	5 064 961
2022 - 2026	3 730 000	1 342 116	5 072 116
2027 - 2030	<u>3 675 000</u>	<u>379 125</u>	<u>4 054 125</u>
Totals	<u>\$ 13 035 000</u>	<u>\$ 6 453 067</u>	<u>\$ 19 488 067</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2011

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, 2011.

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, 2011 \$1,100,000 of bonds considered defeased are still outstanding.

H. CHANGES IN LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended August 31, 2011, 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	\$ 13 510 000	\$ _____	\$ 475 000	\$ 13 035 000	\$ 495 000
Premium (Discount) on Issuance of Bonds:					
Premium	287 804	_____	14 790	273 014	_____
Total Governmental Activities Long-term Liabilities	<u>\$ 13 797 804</u>	<u>\$ 0</u>	<u>\$ 489 790</u>	<u>\$ 13 308 014</u>	<u>\$ 495 000</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	\$ 1 270 076	\$ 169 925	\$	\$ 1 440 001
State Entitlement	775 891			775 891
Tax Escrow	4 444			4 444
Existing Debt Allotment	_____	50 421	_____	50 421
Totals	<u>\$ 2 050 411</u>	<u>\$ 220 346</u>	<u>\$ 0</u>	<u>\$ 2 270 757</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2011

J. FUND BALANCE

Fund Balance is classified as nonspendable, restricted, committed, assigned and/or unassigned. The individual fund balances of the District are:

<u>Fund Balance</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Nonspendable:				
Prepays	\$ 29 878	\$	\$	\$ 29 878
Total Nonspendable	<u>29 878</u>			<u>29 878</u>
Restricted:				
Federal Grants			193 693	193 693
State Grants			3 477	3 477
Debt Service		506 846		506 846
Other - SSA			100 130	100 130
Total Restricted		<u>506 846</u>	<u>297 300</u>	<u>804 146</u>
Committed:				
Construction	2 000 000			2 000 000
Total Committed	<u>2 000 000</u>			<u>2 000 000</u>
Assigned:				
Campus Activity			74 126	74 126
Total Assigned			<u>74 126</u>	<u>74 126</u>
Unassigned	<u>2 025 940</u>			<u>2 025 940</u>
Total Fund Balances	<u>\$ 4 055 818</u>	<u>\$ 506 846</u>	<u>\$ 371 426</u>	<u>\$ 4 934 090</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 YEAR ENDED AUGUST 31, 2011

K. 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	\$ 4 971 122	\$ 1 119 684	\$	\$ 6 090 806
Penalties, Interest & Other				
Tax Related Income	142 824	30 862		173 686
Food Sales			182 447	182 447
Investment Income	42 003	5 601	507	48 111
Co-curricular Student				
Activities	72 708		76 157	148 865
SSA Members			963 711	963 711
Other	<u>91 913</u>		<u>39 338</u>	<u>131 051</u>
Total	<u><u>\$ 5 320 370</u></u>	<u><u>\$ 1 156 147</u></u>	<u><u>\$ 1 262 160</u></u>	<u><u>\$ 7 738 677</u></u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2011

L. JOINT VENTURE SHARED SERVICE ARRANGEMENT

The District is the fiscal agent for a Shared Service Arrangement (“SSA”) which provides special education services to member districts. In addition to the District, five other member districts are participants. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA’s Resource Guide, the District has accounted for the fiscal agent’s activities of the SSA in Special Revenue Fund No. 437, Shared Services Arrangements - Special Education and will be accounted for using Model 3 in the SSA section of the Resource Guide. The District also acts as fiscal agent for four federal revenue programs in Special Revenue Funds No. 313, IDEA - Part B, Formula, No. 314, IDEA - Part B, Preschool, No. 364, ARRA IDEA - Part B, Formula and No. 365, ARRA IDEA - Part B, Preschool. Expenditures of the SSA are summarized below:

	<u>Fund 437</u>	<u>Fund 313</u>	<u>Fund 314</u>	<u>Fund 364</u>	<u>Fund 365</u>
Eustace ISD	\$ 371 099	\$ 312 796	\$ 7 318	\$ 102 992	\$ 10 485
Malakoff ISD	304 262	256 458	5 999	84 442	8 597
Cross Roads ISD	128 688	108 469	2 537	35 715	3 636
La Poynor ISD	115 719	97 538	2 281	32 116	3 270
Trinidad ISD	31 922	26 907	629	12 736	902
Murchison ISD	<u>45 889</u>	<u>38 679</u>	<u>905</u>	<u>8 859</u>	<u>1 297</u>
Totals	<u>\$ 997 579</u>	<u>\$ 840 847</u>	<u>\$ 19 670</u>	<u>\$ 276 860</u>	<u>\$ 28 187</u>

The SSA fiscal agent responsibilities were transferred to the Eustace ISD on September 1, 2011.

The District participates in a shared services arrangement for special education services with five 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 \$368,344.

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, 2011

M. COMMITMENTS UNDER OPERATING LEASES

Commitments under operating (noncapitalized) lease agreements for equipment provided for minimum future rental payments as of August 31, 2011, as follows:

Year Ended August 31	Total
2012	\$ 79 167
2013	56 856
2014	29 731
Total Minimum Rentals	\$ 165 754
Rental Expenditures in Fiscal Year 2011	\$ 83 203

N. 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.trs.state.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, 2009, 2010 and 2011 were \$484,833, \$493,543 and \$544,208, 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, 2009, 2010 and 2011 were \$95,783, \$99,794 and \$144,704, respectively.

The on behalf amounts contributed by the State, \$527,676, 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, 2011

O. HEALTH CARE

During the year ended August 31, 2011 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.

P. 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, 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 2011, 2010, 2009. 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, 2011 is estimated by TRS at \$23,920. 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, 2011

Q. 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.

R. 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, 2011 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.

S. 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 2011 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

EXHIBIT G-1

EUSTACE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 5,480,108	\$ 5,480,108	\$ 5,320,370	\$ (159,738)
5800	State Program Revenues	5,101,005	5,101,005	5,220,093	119,088
5900	Federal Program Revenues	-	-	86,246	86,246
5020	Total Revenues	10,581,113	10,581,113	10,626,709	45,596
EXPENDITURES:					
Current:					
0011	Instruction	5,935,494	5,935,494	6,020,698	(85,204)
0012	Instructional Resources and Media Services	162,536	162,535	157,341	5,194
0013	Curriculum and Instructional Staff Development	132,625	132,625	129,231	3,394
0021	Instructional Leadership	79,516	79,516	75,430	4,086
0023	School Leadership	636,294	636,294	631,658	4,636
0031	Guidance, Counseling and Evaluation Services	322,143	322,143	318,848	3,295
0032	Social Work Services	42,134	42,134	39,312	2,822
0033	Health Services	113,189	113,189	110,255	2,934
0034	Student (Pupil) Transportation	394,020	394,020	387,813	6,207
0036	Extracurricular Activities	481,471	481,471	471,149	10,322
0041	General Administration	474,162	474,162	463,122	11,040
0051	Facilities Maintenance and Operations	1,198,970	1,198,970	1,181,663	17,307
0052	Security and Monitoring Services	15,733	15,733	13,092	2,041
0053	Data Processing Services	147,364	147,364	144,251	3,113
Capital Outlay:					
0081	Facilities Acquisition and Construction	26,118	26,118	26,118	-
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	368,344	368,344	368,344	-
0099	Other Intergovernmental Charges	121,000	121,000	108,836	12,164
6030	Total Expenditures	10,651,113	10,651,112	10,647,761	3,351
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(70,000)	(69,999)	(21,052)	48,947
OTHER FINANCING SOURCES (USES):					
7949	Other Resources	-	-	40,095	40,095
7080	Total Other Financing Sources (Uses)	-	-	40,095	40,095
1200	Net Change in Fund Balances	(70,000)	(69,999)	19,043	89,042
0100	Fund Balance - September 1 (Beginning)	4,036,775	4,036,775	4,036,775	-
3000	Fund Balance - August 31 (Ending)	\$ 3,966,775	\$ 3,966,776	\$ 4,055,818	\$ 89,042

COMBINING STATEMENTS

EUSTACE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2011

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	266 Title XIV ARRA State Stabilization
ASSETS				
1110 Cash and Cash Equivalents	\$ (22,068)	\$ 168,021	\$ -	\$ (193,275)
1240 Receivables from Other Governments	31,549	25,672	2,686	193,275
1000 Total Assets	<u>\$ 9,481</u>	<u>\$ 193,693</u>	<u>\$ 2,686</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2160 Accrued Wages Payable	\$ 9,481	\$ -	\$ 2,686	\$ -
2000 Total Liabilities	<u>9,481</u>	<u>-</u>	<u>2,686</u>	<u>-</u>
Fund Balances:				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	193,693	-	-
3490 Other Restricted Fund Balance	-	-	-	-
Assigned Fund Balance:				
3590 Other Assigned Fund Balance	-	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>193,693</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 9,481</u>	<u>\$ 193,693</u>	<u>\$ 2,686</u>	<u>\$ -</u>

279 Title II, D ARRA - Ed. Technology	283 IDEA, Pt. B ARRA Formula	285 ESEA I,A Improving Basic Program	313 SSA IDEA, Part B Formula	314 SSA IDEA, Part B Preschool	364 SSA - ARRA IDEA, Pt. B Formula	365 SSA - ARRA IDEA, Part B Preschool	397 Advanced Placement Incentives
\$ -	\$ (8,332)	\$ -	\$ (12,585)	\$ -	\$ (1,394)	\$ -	\$ 3,477
-	8,332	-	12,585	-	1,394	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,477</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	3,477
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	3,477
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,477</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2011

Data Control Codes	404 Student Success Initiative	409 Mathematics Instructional Coaches	411 Technology Allotment	415 Kindergarten and Pre-K Grants	
ASSETS					
1110	Cash and Cash Equivalents	\$ (1,045)	\$ (27,397)	\$ -	\$ -
1240	Receivables from Other Governments	1,045	27,397	-	3,441
1000	Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,441</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
2160	Accrued Wages Payable	\$ -	\$ -	\$ -	\$ 3,441
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,441</u>
Fund Balances:					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	-
3490	Other Restricted Fund Balance	-	-	-	-
Assigned Fund Balance:					
3590	Other Assigned Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,441</u>

429 Texas Fitness Now Grant	437 SSA Special Education	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ 100,130	\$ 74,126	\$ 79,658
-	-	-	307,376
<u>\$ -</u>	<u>\$ 100,130</u>	<u>\$ 74,126</u>	<u>\$ 387,034</u>
\$ -	\$ -	\$ -	\$ 15,608
-	-	-	15,608
-	-	-	197,170
-	100,130	-	100,130
-	-	74,126	74,126
-	100,130	74,126	371,426
<u>\$ -</u>	<u>\$ 100,130</u>	<u>\$ 74,126</u>	<u>\$ 387,034</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	266 Title XIV ARRA State Stabilization
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ 182,833	\$ -	\$ -
5800 State Program Revenues	-	5,295	-	-
5900 Federal Program Revenues	250,378	601,227	66,524	438,076
5020 Total Revenues	<u>250,378</u>	<u>789,355</u>	<u>66,524</u>	<u>438,076</u>
EXPENDITURES:				
Current:				
0011 Instruction	246,443	-	66,524	376,222
0021 Instructional Leadership	-	-	-	-
0031 Guidance, Counseling and Evaluation Services	3,935	-	-	-
0034 Student (Pupil) Transportation	-	-	-	-
0035 Food Services	-	770,064	-	-
0036 Extracurricular Activities	-	-	-	-
0051 Facilities Maintenance and Operations	-	-	-	-
0053 Data Processing Services	-	-	-	61,854
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of	-	-	-	-
6030 Total Expenditures	<u>250,378</u>	<u>770,064</u>	<u>66,524</u>	<u>438,076</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>19,291</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):				
7949 Other Resources	-	-	-	-
8949 Other (Uses)	-	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	-	19,291	-	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>174,402</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ 193,693</u>	<u>\$ -</u>	<u>\$ -</u>

279 Title II, D ARRA - Ed. Technology	283 IDEA, Pt. B ARRA Formula	285 ESEA I,A Improving Basic Program	313 SSA IDEA, Part B Formula	314 SSA IDEA, Part B Preschool	364 SSA - ARRA IDEA, Pt. B Formula	365 SSA - ARRA IDEA, Part B Preschool	397 Advanced Placement Incentives
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
141	67,135	33,170	840,847	19,670	276,860	28,187	-
141	67,135	33,170	840,847	19,670	276,860	28,187	-
141	67,135	33,170	449,529	19,670	276,860	28,187	-
-	-	-	-	-	-	-	-
-	-	-	391,318	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
141	67,135	33,170	840,847	19,670	276,860	28,187	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	3,477
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,477

EUSTACE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	404 Student Success Initiative	409 Mathematics Instructional Coaches	411 Technology Allotment	415 Kindergarten and Pre-K Grants	
REVENUES:					
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800	State Program Revenues	10,362	52,444	39,236	76,494
5900	Federal Program Revenues	-	-	-	-
5020	Total Revenues	<u>10,362</u>	<u>52,444</u>	<u>39,236</u>	<u>76,494</u>
EXPENDITURES:					
Current:					
0011	Instruction	10,362	52,444	43,442	76,494
0021	Instructional Leadership	-	-	-	-
0031	Guidance, Counseling and Evaluation Services	-	-	-	-
0034	Student (Pupil) Transportation	-	-	-	-
0035	Food Services	-	-	-	-
0036	Extracurricular Activities	-	-	-	-
0051	Facilities Maintenance and Operations	-	-	-	-
0053	Data Processing Services	-	-	-	-
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	-	-	-	-
6030	Total Expenditures	<u>10,362</u>	<u>52,444</u>	<u>43,442</u>	<u>76,494</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>(4,206)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):					
7949	Other Resources	-	-	-	-
8949	Other (Uses)	-	-	-	-
7080	Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200	Net Change in Fund Balance	-	-	(4,206)	-
0100	Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>4,206</u>	<u>-</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

429 Texas Fitness Now Grant	437 SSA Special Education	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ 1,003,049	\$ 76,278	\$ 1,262,160
6,239	9,259	-	199,329
-	-	-	2,622,215
6,239	1,012,308	76,278	4,083,704
6,239	687,967	-	2,440,829
-	250,798	-	250,798
-	32,701	-	427,954
-	943	-	943
-	-	-	770,064
-	-	63,999	63,999
-	41,269	-	41,269
-	-	-	61,854
-	10,000	-	10,000
6,239	1,023,678	63,999	4,067,710
-	(11,370)	12,279	15,994
-	151,595	-	151,595
-	(40,095)	-	(40,095)
-	111,500	-	111,500
-	100,130	12,279	127,494
-	-	61,847	243,932
\$ -	\$ 100,130	\$ 74,126	\$ 371,426

REQUIRED TEA SCHEDULES

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

Last 10 Years Ended August 31	(1) (2)		(3) Assessed/Appraised Value for School Tax Purposes
	Tax Rates		
	Maintenance	Debt Service	
2002 and prior years	Various	Various	\$ Various
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	1.040000	0.218000	476,828,914
2011 (School year under audit)	1.040000	0.236300	479,576,888
1000 TOTALS			

(10) Beginning Balance 9/1/2010	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2011
\$ 502,529	\$ -	\$ 7,170	\$ 499	\$ (23,221)	\$ 471,639
60,200	-	3,289	174	(3,960)	52,777
64,227	-	3,043	22	(4,179)	56,983
75,704	-	6,016	256	(3,942)	65,490
109,272	-	11,722	1,779	(4,025)	91,746
132,613	-	18,185	2,631	(4,099)	107,698
128,746	-	18,941	4,153	(4,519)	101,133
166,638	-	43,199	9,055	(3,087)	111,297
338,110	-	126,302	26,475	(7,159)	178,174
-	6,120,840	4,732,595	1,075,300	(34,092)	278,853
<u>\$ 1,578,039</u>	<u>\$ 6,120,840</u>	<u>\$ 4,970,462</u>	<u>\$ 1,120,344</u>	<u>\$ (92,283)</u>	<u>\$ 1,515,790</u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2012-2013
 GENERAL AND SPECIAL REVENUE FUNDS
 AUGUST 31, 2011

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

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collections	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ -	\$ 61,702	\$ 177,803	\$ 117,746	\$ 1,070	\$ -	\$ 358,321
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	4,548	-	-	-	4,548
6212	Audit Services	-	-	-	19,500	-	-	19,500
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	108,836	-	-	-	-	108,836
621X	Other Professional Services	-	2,550	-	1,626	-	-	4,176
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	1,144	-	-	1,144
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	3,867	4,213	-	-	8,080
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	2,162	5,375	2,210	8,430	1,000	-	19,177
6410	Travel, Subsistence, Stipends	8,373	849	7,871	768	-	-	17,861
6420	Ins. and Bonding Costs	3,653	250	-	-	-	-	3,903
6430	Election Costs	8,264	-	-	-	-	-	8,264
6490	Miscellaneous Operating	7,329	80	1,523	460	8,756	-	18,148
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 29,781	\$ 179,642	\$ 197,822	\$ 153,887	\$ 10,826	\$ -	\$ 571,958

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 14,715,472

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 26,118
Total Debt & Lease(6500)	(11)	-
Plant Maintenance (Function 51, 6100-6400)	(12)	1,222,932
Food (Function 35, 6341 and 6499)	(13)	343,715
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		153,887

SubTotal: 1,746,651

Net Allowed Direct Cost \$ 12,968,821

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 28,516,824
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)	\$ 2,870,853
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 412,000
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.
 \$108,836 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, 2011

EXHIBIT J-3

UNAUDITED

1	Total General Fund Balance as of 8/31/11 (Exhibit C-1 object 3000 for the General Fund Only)		\$ 4,055,818
2	Total Non-Spendable Fund Balance (from Exhibit C-1 - for the General Fund Only)	\$ 29,878	
3	Total Restricted Fund Balance (from Exhibit C-1 - for the General Fund Only)	-	
4	Total Committed Fund Balance (from Exhibit C-1 - for the General Fund Only)	2,000,000	
5	Total Assigned Fund Balance (from Exhibit C-1 - for the General Fund Only)	-	
6	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)	-	
7	Estimate of two month's average cash disbursements during the fiscal year.	2,098,430	
8	Estimate of delayed payments from state sources (58xx).	-	
9	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.	7,705	
10	Estimate of delayed payments from federal sources (59xx)	275,493	
11	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)	-	
12	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9+10+11)		<u>4,411,506</u>
13	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 13)		<u><u>\$ (355,688)</u></u>

EUSTACE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2011

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	\$ 194,800	\$ 194,800	\$ 182,833	\$ (11,967)
5800 State Program Revenues	6,000	6,000	5,295	(705)
5900 Federal Program Revenues	539,000	539,000	601,227	62,227
5020 Total Revenues	739,800	739,800	789,355	49,555
EXPENDITURES:				
0035 Food Services	783,691	783,691	770,064	13,627
6030 Total Expenditures	783,691	783,691	770,064	13,627
1200 Net Change in Fund Balances	(43,891)	(43,891)	19,291	63,182
0100 Fund Balance - September 1 (Beginning)	174,402	174,402	174,402	-
3000 Fund Balance - August 31 (Ending)	\$ 130,511	\$ 130,511	\$ 193,693	\$ 63,182

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, 2011

EXHIBIT J-5

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	\$ 1,071,208	\$ 1,071,208	\$ 1,156,147	\$ 84,940
5020	Total Revenues	1,071,208	1,071,208	1,156,147	84,940
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	475,000	475,000	475,000	-
0072	Interest on Long Term Debt	594,708	594,708	594,708	-
0073	Bond Issuance Cost and Fees	1,500	1,500	1,431	69
6030	Total Expenditures	1,071,208	1,071,208	1,071,139	69
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(1)	85,008	85,009
OTHER FINANCING SOURCES (USES):					
8949	Other (Uses)	-	-	(40,906)	(40,906)
7080	Total Other Financing Sources (Uses)	-	-	(40,906)	(40,906)
1200	Net Change in Fund Balances	-	(1)	44,102	44,103
0100	Fund Balance - September 1 (Beginning)	462,744	462,744	462,744	-
3000	Fund Balance - August 31 (Ending)	\$ 462,744	\$ 462,743	\$ 506,846	\$ 44,103

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, 2011, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 5, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the District is responsible for establishing and maintaining effective 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 December 5, 2011.

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*.

We noted certain matters that we reported to the Board of Trustees and management of the District in a separate letter dated December 5, 2011.

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

Respectfully submitted,

Smith, Lambright & Associates, P.C.

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

December 5, 2011

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

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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, 2011. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the 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, 2011.

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.

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

December 5, 2011

EUSTACE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2011

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:
84.010A	ESEA, Title I
84.389	ESEA, Title I ARRA
84.394	Title XIV - SFFA - ARRA
	IDEA Cluster:
84.027	IDEA - Part B, Formula
84.173	IDEA - Part B, Preschool
84.391	IDEA - Part B, Formula ARRA
84.3.92	IDEA - Part B, Preschool ARRA
	Child Nutrition Cluster:
10.533	School Breakfast Program
10.555	National Lunch Program
10.559	Summer Feeding Program

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, 2011

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, 2011

N/A

EUSTACE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2011

N/A

EUSTACE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2011

EXHIBIT K-1

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	11-610101107905	\$ 240,897
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	12-610101107905	9,481
Total CFDA Number 84.010A			250,378
*ESEA, Title I, A - ARRA -Improving Basic Programs	84.389	10-551001107905	33,170
Total Title I, Part A Cluster			283,548
**SSA - IDEA - Part B, Formula	84.027	11-661001107905	840,847
**SSA - IDEA - Part B, Preschool	84.173	11-661001107905	19,670
**IDEA, Part B, Formula - ARRA	84.391	10-554001107905	67,135
**SSA - IDEA, Part B, Formula - ARRA	84.391	10-554001107905	276,860
Total CFDA Number 84.391			343,995
**SSA - IDEA, Part B, Preschool - ARRA	84.392	11-661001107905	28,187
Total Special Education Cluster (IDEA)			1,232,699
Title II D Enhancing Ed Through Technology - ARRA	84.386	10-553001107905	141
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	11-694501107905	63,838
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	12-694501107905	2,686
Total CFDA Number 84.367A			66,524
Title XIV, State Fiscal Stabilization Fund - ARRA	84.394	11-557001107905	438,076
Total Passed Through State Department of Education			\$ 2,020,988
TOTAL DEPARTMENT OF EDUCATION			\$ 2,020,988
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
***School Breakfast Program	10.553		\$ 139,674
***National School Lunch Program-Cash Assistance	10.555		421,836
***National School Lunch Prog.-Non-Cash Assistance	10.555		39,717
Total CFDA Number 10.555			461,553
Total Child Nutrition Cluster			601,227
Total Passed Through the State Department of Agriculture			\$ 601,227
TOTAL DEPARTMENT OF AGRICULTURE			\$ 601,227
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,622,215

*Clustered Programs
 **Clustered Programs
 ***Clustered Programs

Note A - Funds received from ESC Region 7 for Head Start reimbursements of \$86,246 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, 2011

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.