

**DENISON INDEPENDENT SCHOOL
DISTRICT**

**ANNUAL FINANCIAL REPORT FOR THE
YEAR ENDED**

AUGUST 31, 2010

DENISON INDEPENDENT SCHOOL DISTRICT

**Table of Contents for
Year Ended August 31, 2010**

| <u>Exhibit</u> | <u>Page Number</u> |
|--|------------------------|
| Certificate of Board | 3 |
| Independent Auditor's Report | 4 |
| Management's Discussion and Analysis | 6 |
| <u>Basic Financial Statements:</u> | |
| Government-wide Financial Statements: | |
| A-1 Statement of Net Assets | 14 |
| B-1 Statement of Activities | 15 |
| Governmental Fund Financial Statements: | |
| C-1 Balance Sheet | 16 |
| C-2 Reconciliation for Exhibit C-1 | 17 |
| C-3 Statement of Revenues, Expenditures, and Changes in Fund Balance | 18 |
| C-4 Reconciliation for Exhibit C-3 | 19 |
| Proprietary Fund Financial Statements: | |
| D-1 Statement of Net Assets | 20 |
| D-2 Statement of Revenues, Expenses, and Changes in Fund Net Assets | 21 |
| D-3 Statement of Cash Flow | 22 |
| Fiduciary Fund Financial Statements: | |
| E-1 Statement of Fiduciary Net Assets | 23 |
| E-2 Statement of Changes in Fiduciary Fund Net Assets | 24 |
| Notes to the Financial Statements | 25 |
| <u>Required Supplementary Information:</u> | |
| G-1 Budgetary Comparison Schedule - General Fund | 44 |
| <u>Combining Schedules:</u> | |
| H-1 Combining Balance Sheet – Nonmajor Governmental Funds | 46 |
| H-2 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Governmental Funds | 52 |
| <u>Required Texas Education Agency Schedules:</u> | |
| J-1 Schedule of Delinquent Taxes Receivable | 60 |
| J-2 Schedule of Expenditures for Computation of Indirect Cost | 62 |
| J-3 Fund Balance and Cash Flow Calculation Worksheet | 63 |
| J-4 Budgetary Comparison Schedule – NonMajor Fund – Child Nutrition Program | 64 |
| J-5 Budgetary Comparison Schedule – NonMajor Fund – Debt Service Fund | 65 |

DENISON INDEPENDENT SCHOOL DISTRICT

**Table of Contents for
Year Ended August 31, 2010
(Continued)**

Reports on Internal Controls, Compliance and Federal Awards:

| | | |
|-----|--|----|
| | Report on Internal Controls Over Financial Reporting Based and on Compliance and Other Matters Based on an audit of Financial Statements Performed in Accordance with <i>Governmental Auditing Standards</i> | 68 |
| | Report on Compliance With Requirements Applicable to Each Major Program and Internal Control Over Compliance in Accordance with OMB Circular A-133 | 70 |
| | Schedule of Findings and Questioned Costs | 72 |
| | Schedule of Status of Prior Findings | 73 |
| | Corrective Action Plan | 74 |
| K-1 | Schedule of Expenditures of Federal Awards | 75 |
| | Notes to Schedule of Expenditures of Federal Awards | 76 |
| L | School First Indicators | 77 |

CERTIFICATE OF THE BOARD

Denison Independent School District
Name of School District

Grayson
County

091-903
Co. – Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) X approved disapproved for the year ended August 31, 2010, at a meeting of the board of trustees of such school district on the 16th day of November, 2010.

Signed copy on file.

Signed copy on file.

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)

KIRK & RICHARDSON, P. C.

Members of the American Institute of Certified Public Accountants

| | | |
|-------------------------|--|------------------------------|
| Tom Kirk, CPA | Don Richardson, CPA | Cindy Poole, CPA |
| 7559 John T. White Road | P O. Box 8342 | Fort Worth, Texas 76124-0342 |
| (817) 451-7406 | E-mail: krcpa@flash.net | Fax (817) 451-7597 |

Independent Auditor's Report

Board of Trustees
Denison Independent School District
Denison, Texas

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 Denison Independent School District (the "District"), as of and for the year ended August 31, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's Administrators. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 28, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 6 through 11 and 44 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the 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 financial statements of the District. The combining 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 ("TEA") 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 UNADUDITED 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.

Signed copy on file.

Kirk & Richardson, P.C.
October 28, 2010

**DENISON INDEPENDENT SCHOOL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2010
UNAUDITED**

This section of Denison Independent School District’s annual financial report presents our discussion and analysis of the District’s financial performance during the year ended August 31, 2010. Please read it in conjunction with the District’s financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

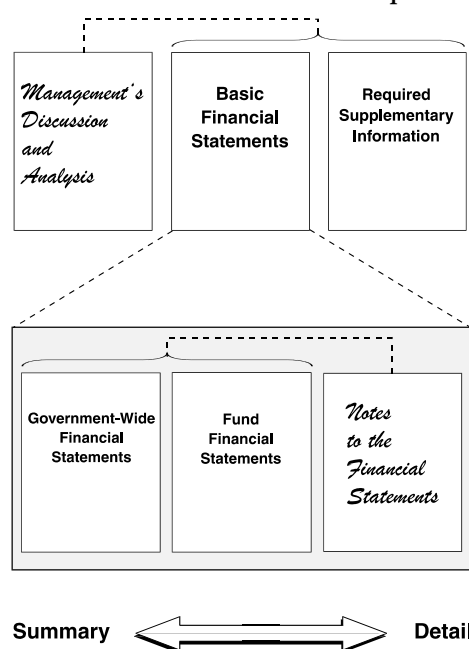
- The District’s total combined net assets were \$27.5 million at August 31, 2010 an increase of \$2.9 million over the prior year.
- During the year, the District’s expenses were \$2.9 million less than the \$44.5 million generated in taxes and other revenues for governmental activities.
- The total cost of the District’s programs increased approximately \$1.4 over last year mainly to adding new programs utilizing ARRA funds.
- The general fund reported a fund balance this year of \$12.8 million, an increase of \$1.7 million over last year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management’s discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District’s *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District’s operations in *more detail* than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as food service.
 - *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

Figure A-1. Required Components of the District’s Annual Financial Report



The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements

| Type of Statements | Fund Statements | | | |
|--|--|--|--|---|
| | Government-wide | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire Agency's government (except fiduciary funds) and the Agency's component units | The activities of the district that are not proprietary or fiduciary | Activities the district operates similar to private businesses: self insurance | Instances in which the district is the trustee or agent for someone else's resources |
| Required financial statements | <ul style="list-style-type: none"> • Statement of net assets • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures & changes in fund balances | <ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows | <ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid | All revenues and expenses during year, regardless of when cash is received or paid |

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's *net assets* and how they have changed. Net assets—the difference between the District's assets and liabilities—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional non-financial factors such as changes in the District's tax base.

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds*—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has three kinds of funds:

- *Governmental funds*—Most of the District’s basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds*—Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
 - We use *internal service funds* to report activities that provide supplies and services for the District’s other programs and activities—such as the District’s Self Insurance Fund.
- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District’s fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District’s government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net assets. The District’s *combined* net assets were approximately \$27.5 million at August 31, 2010. (See Table A-1).

Table A-1
The District’s Net Assets
(in million of dollars)

| | Governmental Activities | | Percentage Change |
|---|----------------------------|------|----------------------|
| | 2010 | 2009 | |
| Assets | | | |
| Current and Other Assets | 19.0 | 17.5 | 8.6 |
| Capital and Non-current Assets | 25.6 | 25.5 | 0.4 |
| Total Assets | 44.6 | 43.0 | 3.7 |
| Liabilities | | | |
| Current Liabilities | 2.6 | 2.9 | (10.3) |
| Long Term Liabilities | 14.5 | 15.5 | (6.5) |
| Total Liabilities | 17.1 | 18.4 | (7.1) |
| Net Assets | | | |
| Invested in Capital Assets, Net of Related Debt | 11.6 | 10.4 | 11.5 |
| Restricted | 5.7 | 5.7 | 0.0 |
| Unrestricted | 10.2 | 8.5 | 20.0 |
| Total Net Assets | 27.5 | 24.6 | 11.8 |

The \$10.2 million of unrestricted net asset represents resources available to fund the programs of the District next year.

Changes in net assets. The District’s total revenues were \$44.5 million. Thirty-four percent of the District’s revenue comes from taxes and forty-three percent comes from state aid – formula grants, while three percent relates to charges for services.

The total cost of all programs and services was \$42.1 million; 82.1% of these costs are for instructional and student services.

Governmental Activities

Table A-2
Changes in the District’s Net Assets
(in million of dollars)

| | Governmental Activities | | Percentage Change |
|---|-------------------------|------|-------------------|
| | 2010 | 2009 | |
| Revenues | | | |
| <u>Program Revenues</u> | | | |
| Charges for Services | 1.3 | 1.3 | 0.0 |
| Operating Grants and Contributions | 8.6 | 6.4 | 34.4 |
| <u>General Revenues</u> | | | |
| Property Taxes | 15.4 | 14.9 | 3.3 |
| State aid – formula/grants & contributions not restricted | 19.2 | 19.9 | (3.5) |
| Investment earnings | 0.0 | 0.1 | (100.0) |
| Other | 0 | 0.6 | (100.0) |
| Total Revenues | 44.5 | 43.2 | 3.0 |
| Expenses | | | |
| Instruction and instructional related | 24.6 | 23.6 | 4.2 |
| Instructional leadership/school administration | 2.5 | 2.3 | 8.7 |
| Guidance, social work, health, transportation | 3.2 | 3.0 | 6.7 |
| Food service | 2.5 | 2.5 | 0.0 |
| Extracurricular activities | 1.8 | 1.9 | (5.3) |
| General Administration | 1.2 | 1.2 | 0.0 |
| Plant maintenance and security | 4.6 | 4.5 | 2.2 |
| Data processing services | 0.7 | 0.7 | 0.0 |
| Debt service | 0.7 | 0.7 | 0.0 |
| Other | 0.3 | 0.3 | 0.0 |
| Total Expenses | 42.1 | 40.7 | 3.4 |
| Increase in Net Assets | 2.9 | 2.5 | 16.0 |
| Prior Period Adjustment | 0.0 | 0.0 | 0.0 |
| Beginning Net Assets | 24.6 | 22.1 | 11.3 |
| Ending Net Assets | 27.5 | 24.6 | 11.8 |

Table A-3 presents the cost of each of the District’s largest functions as well as each function’s *net cost* (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$42.1 million.
- However, the amount that our taxpayers paid for these activities through property taxes was only \$15.4 million.
- Some of the cost was paid by those who directly benefited from the programs (\$1.3 million), or
- By grants and contributions (\$8.6 million).

Table A-3

| | Total Cost of Services | | | Net Cost of Services | | |
|--------------------------------|------------------------|------|----------|----------------------|------|----------|
| | 2010 | 2009 | % Change | 2010 | 2009 | % Change |
| Instruction | 23.6 | 22.6 | 4.4 | 19.4 | 19.2 | 1.0 |
| Food Service | 2.5 | 2.5 | 0.0 | 0.0 | 0.0 | 0.0 |
| Plant Maintenance & Operations | 4.5 | 4.4 | 2.3 | 4.3 | 3.3 | 30.3 |

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$44.9 million, an increase of 4.3% over the preceding year. Local revenues increased by \$0.5 million, state revenue decreased by \$1.0 million primarily as a result of recent changes made by the State, and Federal revenues increased by \$2.3 mainly as a result of receiving ARRA funds this year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised its budget several times. Even with these adjustments, actual expenditures were \$1.8 million below final budget amounts. The most significant positive variances were in areas of instruction and facilities maintenance and operations. Resources available were \$1.7 million less than the final budgeted amount. This is mainly the result of receiving less local and state revenue than anticipated.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the District had invested \$38.3 million in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.)

Table A-4
District's Capital Assets
(in million of dollars)

| | Governmental Activities | | |
|--------------------------------|-------------------------|------|----------|
| | 2010 | 2009 | % Change |
| Land | 4.0 | 3.8 | 5.3 |
| Construction in process | 0.0 | 0.0 | 0.0 |
| Building and improvements | 27.8 | 27.6 | 0.7 |
| Furniture and equipment | 6.5 | 5.7 | 4.0 |
| Total at historical cost | 38.3 | 37.1 | 3.2 |
| Total accumulated depreciation | 12.7 | 11.6 | 9.5 |
| Net Capital Assets | 25.6 | 25.5 | 0.4 |

Long-Term Debt

Table A-5
District's Long Term Debt
(in million of dollars)

| | Governmental Activities | | % Change |
|----------------------|----------------------------|------|----------|
| | 2010 | 2009 | |
| Bonds payable | 5.8 | 6.6 | (12.1) |
| Accreted Interest | 8.3 | 8.5 | (2.3) |
| Compensated Absences | 0.4 | 0.4 | 0.0 |
| Totals | 14.5 | 15.5 | (6.5) |

At year-end the District had \$14.5 million in bonds, accreted interest, and compensated absences as shown in Table A-5. More detailed information about the District's debt is presented in the Notes to the Financial Statements.

Bond Ratings

The District's bonds presently carry "AAA" ratings with underlying ratings as follows: Moody's Investor Services "A3" and Standard & Poors "A"

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES.

Appraised value used for the 2011 budget preparation will be up \$82.95 million, or 6.28% from 2010. General operating fund spending per student decreases in the 2011 budget from \$7,838 to \$7,757. This is a 1.03% decrease.

The District's 2011 refined average daily attendance is expected to be 4,185, the same as 2010.

These indicators were taken into account when adopting the general fund budget for 2011. Amounts available for appropriation in the general fund budget are \$34.91 million, a decrease of 1.03% compared to the final 2010 budget of \$34.94 million. Property taxes will increase due to an increase in appraised values. The tax rate will decrease from \$1.2771 to \$1.2712.

Expenditures are budgeted at \$35.4 million. Property tax revenue will increase approximately \$719,000 and State Funding will decrease approximately \$663,000. Investment revenue will decrease by approximately \$130,000.

If these estimates are realized, the District's budgetary fund balance in the general fund is expected to decrease by \$495,000 by the close of 2011.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Services Department.

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BASIC FINANCIAL STATEMENTS

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

| Data Control Codes | Primary Government |
|--|----------------------------|
| | Governmental Activities |
| ASSETS | |
| 1110 Cash and Cash Equivalents | \$ 15,351,555 |
| 1220 Property Taxes Receivable (Delinquent) | 1,430,614 |
| 1230 Allowance for Uncollectible Taxes | (14,306) |
| 1240 Due from Other Governments | 2,067,466 |
| 1250 Accrued Interest | 30,420 |
| 1290 Other Receivables, net | 1,000 |
| 1300 Inventories | 73,688 |
| 1410 Deferred Expenses | 22,685 |
| Capital Assets: | |
| 1510 Land | 3,962,102 |
| 1520 Buildings, Net | 18,925,594 |
| 1530 Furniture and Equipment, Net | 2,707,463 |
| 1000 Total Assets | 44,558,281 |
| LIABILITIES | |
| 2110 Accounts Payable | 1,251,730 |
| 2140 Interest Payable | 74,678 |
| 2160 Accrued Wages Payable | 1,151,335 |
| 2180 Due to Other Governments | 1,026 |
| 2300 Deferred Revenues | 75,707 |
| Noncurrent Liabilities | |
| 2501 Due Within One Year | 1,096,156 |
| 2502 Due in More Than One Year | 13,428,957 |
| 2000 Total Liabilities | 17,079,589 |
| NET ASSETS | |
| 3200 Invested in Capital Assets, Net of Related Debt | 11,547,476 |
| 3820 Restricted for Federal and State Programs | 473,354 |
| 3850 Restricted for Debt Service | 745,690 |
| 3860 Restricted for Capital Projects | 4,525,012 |
| 3900 Unrestricted Net Assets | 10,187,160 |
| 3000 Total Net Assets | \$ 27,478,692 |

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

DENISON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2010

EXHIBIT B-1

| Data Control Codes | 1 | Program Revenues | | 6 |
|--------------------------|----------|-------------------------|--|--|
| Codes | Expenses | Charges for Services | Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Assets Primary Gov. Governmental Activities |

Primary Government:

GOVERNMENTAL ACTIVITIES:

| | | | | |
|---|---------------|--------------|--------------|-----------------|
| 11 Instruction | \$ 23,553,295 | \$ 132,013 | \$ 4,019,336 | \$ (19,401,946) |
| 12 Instructional Resources and Media Services | 477,358 | - | 17,418 | (459,940) |
| 13 Curriculum and Staff Development | 539,542 | - | 426,559 | (112,983) |
| 21 Instructional Leadership | 672,376 | - | 150,548 | (521,828) |
| 23 School Leadership | 1,787,279 | - | 86,867 | (1,700,412) |
| 31 Guidance, Counseling and Evaluation Services | 1,656,925 | - | 486,448 | (1,170,477) |
| 33 Health Services | 328,946 | 1,313 | 107,481 | (220,152) |
| 34 Student (Pupil) Transportation | 1,222,602 | 1,313 | 192,117 | (1,029,172) |
| 35 Food Services | 2,537,171 | 699,411 | 1,779,161 | (58,599) |
| 36 Extracurricular Activities | 1,771,016 | 478,158 | 30,822 | (1,262,036) |
| 41 General Administration | 1,212,225 | - | 37,376 | (1,174,849) |
| 51 Plant Maintenance and Operations | 4,492,552 | - | 1,143,159 | (3,349,393) |
| 52 Security and Monitoring Services | 119,294 | - | 4,082 | (115,212) |
| 53 Data Processing Services | 693,667 | - | 42,387 | (651,280) |
| 61 Community Services | 62,993 | - | 42,993 | (20,000) |
| 72 Debt Service - Interest on Long Term Debt | 700,607 | - | - | (700,607) |
| 99 Other Intergovernmental Charges | 260,053 | - | - | (260,053) |
| [TP] TOTAL PRIMARY GOVERNMENT: | \$ 42,087,901 | \$ 1,312,208 | \$ 8,566,754 | \$ (32,208,939) |

Data
Control
Codes

General Revenues:

Taxes:

| | | |
|----|--|---------------|
| MT | Property Taxes, Levied for General Purposes | 14,137,424 |
| DT | Property Taxes, Levied for Debt Service | 1,294,844 |
| SF | State Aid - Formula Grants | 18,531,986 |
| GC | Grants and Contributions not Restricted | 708,996 |
| IE | Investment Earnings | 73,286 |
| MI | Miscellaneous Local and Intermediate Revenue | 347,580 |
| TR | Total General Revenues | 35,094,116 |
| CN | Change in Net Assets | 2,885,177 |
| NB | Net Assets--Beginning | 24,593,515 |
| NE | Net Assets--Ending | \$ 27,478,692 |

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

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

| Data Control Codes | 10 General Fund | Other Funds | Total Governmental Funds |
|--------------------------------------|-----------------------|---------------------|--------------------------------|
| ASSETS | | | |
| 1110 | \$ 13,017,489 | \$ 1,780,188 | \$ 14,797,677 |
| 1220 | 1,315,742 | 114,872 | 1,430,614 |
| 1230 | (13,157) | (1,149) | (14,306) |
| 1240 | 767,188 | 1,300,278 | 2,067,466 |
| 1250 | 30,420 | - | 30,420 |
| 1260 | 90,561 | - | 90,561 |
| 1290 | - | 1,000 | 1,000 |
| 1300 | 24,107 | 49,581 | 73,688 |
| 1410 | 2,912 | 19,773 | 22,685 |
| 1000 | <u>\$ 15,235,262</u> | <u>\$ 3,264,543</u> | <u>\$ 18,499,805</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| 2110 | \$ 54,247 | \$ 1,195,712 | \$ 1,249,959 |
| 2160 | 1,088,328 | 63,007 | 1,151,335 |
| 2170 | - | 90,561 | 90,561 |
| 2180 | - | 1,026 | 1,026 |
| 2300 | 1,302,584 | 189,430 | 1,492,014 |
| 2000 | <u>2,445,159</u> | <u>1,539,736</u> | <u>3,984,895</u> |
| Fund Balances: | | | |
| Restricted Fund Balance: | | | |
| 3410 | 24,107 | - | 24,107 |
| 3420 | - | 745,690 | 745,690 |
| Unspendable Fund Balance: | | | |
| 3450 | - | 473,354 | 473,354 |
| Committed Fund Balance: | | | |
| 3510 | 4,500,000 | 25,012 | 4,525,012 |
| Assigned Fund Balance: | | | |
| 3590 | - | 139,165 | 139,165 |
| Unassigned Fund Balance: | | | |
| 3600 | 8,265,996 | - | 8,265,996 |
| 3610 | - | 341,586 | 341,586 |
| 3000 | <u>12,790,103</u> | <u>1,724,807</u> | <u>14,514,910</u> |
| 4000 | <u>\$ 15,235,262</u> | <u>\$ 3,264,543</u> | <u>\$ 18,499,805</u> |

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

DENISON INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
AUGUST 31, 2010

| | | |
|---|-----------|-------------------|
| Total Fund Balances - Governmental Funds | \$ | 14,514,910 |
| | | |
| 1 The District uses internal service funds to charge the costs of self-insurance to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase(decrease) net assets. | | 552,107 |
| | | |
| 2 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 \$37,201,581 and the accumulated depreciation was \$11,731,195. 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. At the beginning of the year, the balance of these liabilities was \$15,504,030. 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. | | 9,966,356 |
| | | |
| 3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2010 capital outlays and debt principal payments is to increase (decrease) net assets. | | 2,097,480 |
| | | |
| 4 The 2010 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets. | | (1,204,553) |
| | | |
| 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, 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. | | 1,552,392 |
| | | |
| 19 Net Assets of Governmental Activities | \$ | 27,478,692 |

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

DENISON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2010

| Data Control Codes | 10 General Fund | Other Funds | Total Governmental Funds |
|--|-----------------------|---------------------|--------------------------------|
| REVENUES: | | | |
| 5700 Total Local and Intermediate Sources | \$ 14,696,336 | \$ 2,539,777 | \$ 17,236,113 |
| 5800 State Program Revenues | 19,883,333 | 571,027 | 20,454,360 |
| 5900 Federal Program Revenues | 450,033 | 6,727,355 | 7,177,388 |
| 5020 Total Revenues | <u>35,029,702</u> | <u>9,838,159</u> | <u>44,867,861</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| 0011 Instruction | 20,606,393 | 3,151,950 | 23,758,343 |
| 0012 Instructional Resources and Media Services | 465,469 | 63 | 465,532 |
| 0013 Curriculum and Instructional Staff Development | 99,595 | 426,559 | 526,154 |
| 0021 Instructional Leadership | 548,919 | 124,312 | 673,231 |
| 0023 School Leadership | 1,782,313 | 2,354 | 1,784,667 |
| 0031 Guidance, Counseling and Evaluation Services | 1,226,715 | 431,192 | 1,657,907 |
| 0033 Health Services | 238,494 | 90,239 | 328,733 |
| 0034 Student (Pupil) Transportation | 1,204,769 | 164,313 | 1,369,082 |
| 0035 Food Services | - | 2,509,102 | 2,509,102 |
| 0036 Extracurricular Activities | 1,406,972 | 235,023 | 1,641,995 |
| 0041 General Administration | 1,213,934 | - | 1,213,934 |
| 0051 Facilities Maintenance and Operations | 3,646,086 | 1,053,028 | 4,699,114 |
| 0052 Security and Monitoring Services | 103,395 | - | 103,395 |
| 0053 Data Processing Services | 440,892 | 31,093 | 471,985 |
| 0061 Community Services | 20,000 | 42,993 | 62,993 |
| Debt Service: | | | |
| 0071 Debt Service - Principal on Long Term Debt | - | 768,154 | 768,154 |
| 0072 Debt Service - Interest on Long Term Debt | - | 861,846 | 861,846 |
| Capital Outlay: | | | |
| 0081 Facilities Acquisition and Construction | 117,000 | - | 117,000 |
| Intergovernmental: | | | |
| 0099 Other Intergovernmental Charges | 260,053 | - | 260,053 |
| 6030 Total Expenditures | <u>33,380,999</u> | <u>9,892,221</u> | <u>43,273,220</u> |
| 1100 Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>1,648,703</u> | <u>(54,062)</u> | <u>1,594,641</u> |
| OTHER FINANCING SOURCES (USES): | | | |
| 7912 Sale of Real and Personal Property | 11,872 | - | 11,872 |
| 7915 Transfers In | - | 1,513 | 1,513 |
| 8911 Transfers Out (Use) | (1,513) | - | (1,513) |
| 7080 Total Other Financing Sources (Uses) | <u>10,359</u> | <u>1,513</u> | <u>11,872</u> |
| 1200 Net Change in Fund Balances | 1,659,062 | (52,549) | 1,606,513 |
| 0100 Fund Balance - September 1 (Beginning) | <u>11,131,041</u> | <u>1,777,356</u> | <u>12,908,397</u> |
| 3000 Fund Balance - August 31 (Ending) | <u>\$ 12,790,103</u> | <u>\$ 1,724,807</u> | <u>\$ 14,514,910</u> |

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

DENISON INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2010

| | | |
|---|-----------|------------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ | 1,606,513 |
| | | |
| The District uses internal service funds to charge the costs of self-insurance to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net assets. | | 85,470 |
| | | |
| Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2010 capital outlays and debt principal payments is to increase (decrease) net assets. | | 2,097,480 |
| | | |
| 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. | | (1,204,553) |
| | | |
| 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, 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. | | 300,267 |
| | | |
| Change in Net Assets of Governmental Activities | <u>\$</u> | <u>2,885,177</u> |

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

DENISON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2010

| | Governmental Activities - |
|---------------------------|------------------------------|
| | Internal Service Fund |
| ASSETS | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 553,878 |
| Total Assets | <u>553,878</u> |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts Payable | <u>1,771</u> |
| Total Liabilities | <u>1,771</u> |
| NET ASSETS | |
| Unrestricted Net Assets | <u>552,107</u> |
| Total Net Assets | <u><u>\$ 552,107</u></u> |

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

DENISON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2010

| | Governmental Activities - |
|--|------------------------------|
| | Internal Service Fund |
| OPERATING REVENUES: | |
| Local and Intermediate Sources | \$ 183,750 |
| Total Operating Revenues | 183,750 |
| OPERATING EXPENSES: | |
| Professional and Contracted Services | 98,280 |
| Total Operating Expenses | 98,280 |
| Operating Income | 85,470 |
| Total Net Assets - September 1 (Beginning) | 466,637 |
| Total Net Assets - August 31 (Ending) | \$ 552,107 |

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

DENISON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2010

| | Governmental Activities - |
|---|------------------------------|
| | Internal Service Fund |
| <u>Cash Flows from Operating Activities:</u> | |
| Cash Received from Assessments - Other Funds | \$ 181,423 |
| Cash Payments for Insurance Claims | (98,400) |
| Net Cash Provided by Operating Activities | 83,023 |
| <u>Cash Flows from Investing Activities:</u> | |
| Interest and Dividends on Investments | 2,327 |
| Net Increase in Cash and Cash Equivalents | 85,350 |
| Cash and Cash Equivalents at Beginning of the Year: | 468,528 |
| Cash and Cash Equivalents at the End of the Year: | \$ 553,878 |
| <u>Reconciliation of Operating Income to Net Cash</u> | |
| <u> Provided by Operating Activities:</u> | |
| Operating Income: | \$ 85,470 |
| Effect of Increases and Decreases in Current Assets and Liabilities: | |
| Increase (decrease) in Accounts Payable | (120) |
| Interest Earned on Investments | (2,327) |
| Net Cash Provided by Operating Activities | \$ 83,023 |

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

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

| | Private Purpose Trust Fund | Agency Fund | Fiduciary Component Unit |
|-----------------------------|----------------------------------|-------------------|--------------------------------|
| ASSETS | | | |
| Cash and Cash Equivalents | \$ 65,733 | \$ 129,965 | \$ 1,196,530 |
| Total Assets | <u>65,733</u> | <u>\$ 129,965</u> | <u>1,196,530</u> |
| LIABILITIES | | | |
| Due to Student Groups | - | \$ 129,965 | - |
| Total Liabilities | <u>-</u> | <u>\$ 129,965</u> | <u>-</u> |
| NET ASSETS | | | |
| Restricted for Scholarships | <u>65,733</u> | | <u>1,196,530</u> |
| Total Net Assets | <u>\$ 65,733</u> | | <u>\$ 1,196,530</u> |

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

DENISON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2010

| | Private Purpose Trust Fund | Fiduciary Component Unit |
|--|----------------------------------|--------------------------------|
| ADDITIONS: | | |
| Local and Intermediate Sources | \$ 68,909 | \$ 215,188 |
| Total Additions | <u>68,909</u> | <u>215,188</u> |
| DEDUCTIONS: | | |
| Scholarships and Grants Awarded | 54,709 | 77,444 |
| Other Operating Costs | - | 67,080 |
| Total Deductions | <u>54,709</u> | <u>144,524</u> |
| Change in Net Assets | 14,200 | 70,664 |
| Total Net Assets - September 1 (Beginning) | <u>51,533</u> | <u>1,125,866</u> |
| Total Net Assets - August 31 (Ending) | <u>\$ 65,733</u> | <u>\$ 1,196,530</u> |

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

**Denison Independent School District
Notes to the Financial Statements
For the Year ended August 31, 2010**

I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Denison Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local government units. The District follows the generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in *Statement of Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of the 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

Denison Independent School District is a public educational agency operating under the applicable laws and regulations of the State of Texas. The District is governed by a seven member Board of Trustees (the "Board") elected by the registered voters of the District. The Board has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. All powers and duties not specifically delegated by statute to the Texas Education Agency ("Agency") or to the State Board of Education are reserved for the Board, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the Board. Therefore, the District is a financial reporting entity as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity." The component unit, as described below, is included in the District's reporting entity because of the significance of its operations or financial relationship with the District.

- Blended component unit. The Component Units columns in the Statement of Fiduciary Net Assets and the Statement of Changes in Fiduciary Fund Net Assets include financial data of The Denison Independent School District Education Foundation, Inc., ("Foundation") a component unit of the District. The component unit is fiduciary in nature and as such is included only in the fund financial statements with the District's fiduciary funds. The primary purpose of the Foundation is to generate the resources to enhance the quality of education of all students of the District. The Foundation is governed by a board of director's consisting of citizens of the community, District employees, and District board members.

B. Government-Wide and Fund Accounting

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the District's non-fiduciary

activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues.

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. Direct costs are those that are clearly identifiable with a specific function. Program revenues of the District include charges for services and operating grants and contributions. Charges for services consists of charges to customers or applicants that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the District, school lunch charges, etc. Operating grants and contributions include 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 source of revenue is not program revenue, it is general revenue used to support all of the District's functions. Taxes are always general revenue.

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 fiduciary funds remain as internal balances on the government-wide Statement of Net Assets.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other 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 revenue in the year for which they are levied. Grants and similar items are recognized 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 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 Funds 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. Agency Funds apply the accrual basis of accounting, but do not have a measurement focus. 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 the 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.

D. Fund Accounting

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

The District reports the following major governmental funds:

1. **The General Fund** – The General Fund is used to account for financial resources used for general operations. It is the basic fund of the school system and covers all activities for which a special fund has not been established. All fund balances are considered resources available for current operations. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund.

Additionally, the District reports the following fund type(s):

Governmental Funds:

1. **Special Revenue Funds** – These funds are used to account for resources restricted to, or designated for specific purposes by the District or a grantor. Federal and State financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances must be returned to the grantor at the close of specified project periods.
2. **Debt Service Funds** – This fund is used to account for the payment of principal and interest on long-term general obligation debt of the District. The main source of revenue for debt service is the apportionment of local property taxes.
3. **Capital Projects Funds** – 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.
4. **Permanent Funds** – The District accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the District's programs. The District has no Permanent Funds.

Proprietary Funds:

1. **Internal Service Funds** – These funds are conceived to be self-supporting. Revenues are earned mainly from sales of services to the schools and operating departments of the District. The District uses this fund type to report its Workers Compensation activities.

Fiduciary Funds:

1. **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 parties outside the District.
2. **Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District’s Agency Fund consists of the Student Activity Funds and other organizational activities requiring clearing accounts.
3. **Component Unit** – This fund is used to account for the Denison Independent School District Education Foundation, Inc., an organization formed to provide financial assistance to the District.

E. Other Accounting Policies

1. For the purpose of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The District uses the consumption method to account for inventories of food products, school supplies, and athletic equipment. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed. In the General Fund, reported inventories are offset by a fund balance reserve. Inventories of food commodities used in the food service program are recorded at fair market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenues are relieved, expenditures are charged, and revenue is recognized for an equal amount.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of 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.

4. Employees of the District earn and accumulate leave according to terms set by the State of Texas at the rate of five (5) days per year. If employees retire from the District and are eligible for full retirement benefits as determined by the Teachers' Retirement System, the District pays the employees one-half of their regular rate of pay for up to 50 days of unused sick leave.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as a current liability to the extent that the amounts are expected to be paid using expendable available financial resources. The balance of the liability is not recorded.

5. Capital assets, which include land, buildings and improvements, furniture and equipment, are reported in the applicable governmental column in the government-wide financial statements. The District defines capital assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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. Interest incurred during construction is not capitalized.

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

| Assets | Years |
|----------------------------|-----------------|
| Land | Not depreciated |
| Buildings and improvements | 45 |
| Furniture and equipment | 5-10 |

6. Bond proceeds not spent are restricted for construction.
7. Since Internal Service Funds support the operations of governmental funds, they are consolidated with the governmental funds in the governmental-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the District as a whole.
8. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

9. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
10. The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency (the “Agency”) in their Resource Guide. The Agency requires school districts to display these codes in the financial statements in order to insure accuracy in building a Statewide data base for policy development and funding plans.
11. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items within the deferred expenditures/expenses line item in both government-wide and fund financial statements.
12. School Districts are required to report all expenses by function, except certain indirect expenses. General administration and data processing service functions (data control codes 41 and 53, respectively) include expenses that are indirect expenses of other functions. These indirect expenses are not allocated to other functions.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS.

Refer to Exhibit C-2 “Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets”, and to Exhibit C-4 “Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities” for explanations.

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Data

The official budget was prepared for adoption for the General Fund, Debt Service Fund, and the Food Service Fund, which is included within the Special Revenue Fund. The budget is prepared using the modified accrual basis of accounting.

The following procedures are followed in establishing the budgetary data reflected in the 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 day’s 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 be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year.

Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

| | Original Budget | Increase (Decrease) | Amended Budget |
|-----------------------------------|--------------------|------------------------|-------------------|
| | Appropriations | | Appropriations |
| General Fund | \$37,928,058 | \$(2,726,902) | \$35,201,156 |
| Food Service Special Revenue Fund | 2,558,555 | 47,000 | 2,605,555 |
| Debt Service Fund | 1,635,000 | 0 | 1,635,000 |

A reconciliation of fund balances for both appropriated budgeted and non-appropriated budgeted special revenue funds is as follows:

| August 31, 2010 Fund Balance | |
|---|-----------|
| Appropriated Budgeted Funds – Food Service Special Revenue Fund | \$473,354 |
| Non-appropriated Budgeted Funds | 480,751 |
| All Special Revenue Funds | \$954,105 |

B. Excess of expenditures over appropriations

There were no excess of expenditures over appropriation for the period ended August 31, 2010.

C. Deficit fund equity

There were no deficit fund equities at the end of the fiscal year.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Legal and Contractual Provisions Governing Deposits and Investments

The District’s funds are required to be deposited and invested under the terms of a depository contract. The Depository bank deposits for safekeeping and trust with the District’s agent bank approved securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank dollar amount of Federal Deposit Insurance Corporation (“FDIC”) insurance.

1. Cash Deposits:

At August 31, 2010, the carrying amount of the District's deposits were as follows:

| | |
|--|---------------------|
| Governmental Funds Cash and Cash Equivalents: | |
| Cash-in-Bank | \$ 590,688 |
| Certificates of Deposits | 4,008,626 |
| Savings | 2,254,882 |
| Temporary Investments Considered as Cash Equivalents | 7,943,481 |
| Total | <u>\$14,797,677</u> |
| Proprietary Funds Cash and Cash Equivalents: | |
| Cash-in-Bank | <u>\$553,878</u> |

The District's cash deposits at August 31, 2010, and during the year, were entirely covered by FDIC insurance and pledged collateral held by the District's agent bank in the District's name.

2. Investments Considered as Cash Equivalents:

The State 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 returns, (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, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposits, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

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

| <u>Investment Type/Rating</u> | <u>Carrying Amount</u> | <u>Fair Value</u> | <u>Weighted Average Maturity (Days)</u> |
|--------------------------------|------------------------|--------------------|---|
| Lone Star Investment Pool/AAAm | \$6,510,722 | \$ 6,510,722 | On demand |
| TexPool/AAAm | 910,766 | 910,766 | On demand |
| TexasTerm/AAAm | 521,993 | 521,993 | On demand |
| | <u>\$7,943,481</u> | <u>\$7,943,481</u> | |

The District's temporary investments consist of balances held by Texas Local Government Investment Pool ("TexPool") and TexasTerm Local Government Investment Pool, as detailed above. These investment pools are public funds

investment pools created to provide a safe environment for the placement of local government funds in authorized short-term, fully-collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by U. S. Government agency securities and placed through a primary government securities dealer. This pools operates in a manner consistent with the Security and Exchange Commission's Rule 2a7 of the Investment Act of 1940.

Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy does address the following risks:

- a. Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's policy regarding types of deposits allowed and collateral requirements is all deposits are covered by FDIC insurance and pledged collateral in their entirety. The District has no custodial credit risk for its deposits.
- b. Custodial Credit Risk – Investments: For an investment, 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. The District has no investments exposed to Custodial Credit Risk.
- c. Interest-rate Risk – Interest-rate risk occurs when potential purchases of debt securities do not agree to pay face value for those securities if interest rates rise. The District does not have any investments considered as Interest-rate Risk.
- d. Other Credit Risk Exposure – The District may invest in a securities lending program if the value of securities loaned is not less than 100 percent collateralized, including accrued income, and the loan allows for termination at any time; the loan is secured; the terms of the loan require that the securities being held as collateral be pledged to the investing entity; and, the loan is placed through a primary government securities dealer or a financial institution doing business in this state. The District does not have any investments in a securities lending program.
- e. Concentration Risk – The investment portfolio shall be diversified in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer. The District is not exposed to concentration risk.

Defaults and Recovery of Prior-period Losses – The District had no defaults and recovery of prior-period losses.

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 on receipt of the tax bill and delinquent if not paid before February 1 of 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.

The tax rates assessed for the year ended August 31, 2010, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.1700 and \$0.1071 per \$100 valuation, respectively, for a total of \$1.2771 per \$100 valuation.

Current tax collections for the year ended August 31, 2010 were 95.9% of the year-end adjusted tax levy.

C. Delinquent Taxes Receivable

Delinquent taxes are prorated between maintenance (General Fund) 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. As of August 31, 2010, property taxes receivable, net of estimated uncollectible taxes, totaled \$1,218,533 and \$104,429 for the General and Debt Service Funds, respectively.

D. Interfund Receivables, Payables, and Transfers

Interfund balances at August 31, 2010 consisted of the following amounts:

| | |
|----------------------------------|-----------------|
| <u>Due to General Fund From:</u> | |
| Debt Service Fund | <u>\$90,561</u> |

The Debt Service Fund owes the General Fund for monies received, but not yet transferred. This amount is expected to be paid within the year.

Interfund transfers for the year ended August 31, 2010 consisted of the following individual amounts:

| | |
|---|----------------|
| <u>Transfers From General Fund To:</u> | |
| Technology Allotment Special Revenue Fund | <u>\$1,513</u> |

The General Fund transferred these funds to the Technology Allotment to cover a deficit fund balance.

E. Disaggregation of Receivables and Payables

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of August 31, 2010.

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

F. Deferred Revenues

Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned.

Deferred Revenues at August 31, 2010 were as follows:

| | Unavailable | Unearned | Total |
|---|--------------------|-----------------|--------------------|
| Delinquent Property Taxes Receivable – General | \$1,302,584 | \$ 0 | \$1,302,584 |
| Delinquent Property Taxes Receivable – Debt Service | 113,724 | 0 | 113,724 |
| Food Service Commodities | 0 | 49,581 | 49,581 |
| State Foundation Revenue Received Before Earned – Special Revenue | 0 | 26,125 | 26,125 |
| Total Deferred Revenues | <u>\$1,416,308</u> | <u>\$75,706</u> | <u>\$1,492,014</u> |

G. Capital Asset Activity

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

| | Beginning Balance | Increases | Decreases | Ending Balance |
|---|----------------------|------------------|----------------|---------------------|
| Governmental activities: | | | | |
| Capital assets, not being depreciated: | | | | |
| Land | \$ 3,845,102 | \$117,000 | \$ 0 | \$ 3,962,102 |
| Construction in progress | 0 | 0 | 0 | 0 |
| Total capital assets, not being depreciated | <u>3,845,102</u> | <u>117,000</u> | <u>0</u> | <u>3,962,102</u> |
| Capital assets, being depreciated: | | | | |
| Buildings and improvements | 27,629,278 | 192,831 | 0 | 27,822,109 |
| Furniture and equipment | 5,727,201 | 1,019,495 | 199,469 | 6,547,227 |
| Total capital assets, being depreciated | <u>33,356,479</u> | <u>1,212,326</u> | <u>199,469</u> | <u>34,369,336</u> |
| Accumulated depreciation for: | | | | |
| Buildings and improvements | 8,380,242 | 516,273 | 0 | 8,896,515 |
| Furniture and equipment | 3,350,953 | 688,280 | 199,469 | 3,839,764 |
| Total accumulated depreciation | <u>11,731,195</u> | <u>1,204,553</u> | <u>199,469</u> | <u>12,736,279</u> |
| Total capital assets, being depreciated, net | <u>21,625,284</u> | <u>7,773</u> | <u>0</u> | <u>21,633,057</u> |
| Governmental activities capital assets, Net | <u>\$25,470,386</u> | <u>\$124,773</u> | <u>\$0</u> | <u>\$25,595,159</u> |

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

| | |
|---|---------------------------|
| Governmental activities: | |
| 11 – Instruction | \$ 250,014 |
| 12 – Instructional Resources & Media Services | 12,681 |
| 13 – Curriculum and Instructional Staff Development | 13,388 |
| 23 – School Leadership | 5,176 |
| 31 – Guidance, Counseling & Evaluation Services | 1,582 |
| 33 – Health Services | 1,068 |
| 34 – Student Transportation | 307,246 |
| 35 – Food Services | 42,896 |
| 36 – Extracurricular Activities | 173,244 |
| 51 – Plant Maintenance & Operations | 106,773 |
| 52 – Security & Monitoring Services | 16,753 |
| 53 – Data Processing | <u>273,732</u> |
| Total Depreciation Expense | <u><u>\$1,204,553</u></u> |

H. Compensated Absences

Employees of the District earn and accumulate leave according to terms set by the State of Texas at the rate of five (5) days per year. If employees retire from the District and are eligible for full retirement benefits as determined by the Teachers’ Retirement System, the District pays the employees one-half of their regular rate of pay for up to 50 days of unused sick leave.

The entire compensated absence liability is reported on the government-wide financial statements. For governmental fund financial statements, the amount of accumulated vacation and sick leave of employees has been recorded as a current liability to the extent that the amounts are expected to be paid using expendable available financial resources. The balance of the liability is not recorded.

The activity within the Accrued Compensated Absences Account follows:

| | |
|-----------------------|------------------|
| Balance, September 1, | \$420,417 |
| Net change | <u>(45,683)</u> |
| Balance, August 31, | <u>\$374,734</u> |

I. Bonds Payable

The following is a description of the District’s bonds outstanding as of August 31, 2010:

| Issue/Maturity Date | Interest Rates Payable | Amounts Original Issue | Beginning Balance | Issued | Retired | Ending Balance | Amounts Due in One Year |
|---|------------------------|------------------------|-------------------|-----------|-----------|----------------|-------------------------|
| 1997 Schoolhouse & Refunding Bonds/2021 | 4.30% to 6.00% | \$13,224,677 | \$6,597,600 | \$ 0 | \$768,154 | \$5,829,446 | \$721,422 |
| Accreted Interest | | | \$8,486,013 | \$696,766 | \$861,846 | \$8,320,933 | - |

Interest and fees paid on general obligation bonds during the year was \$861,846.

The following is a summary of the District’s future annual debt service requirements to maturity for general obligation bonds.

| Year Ended August 31 | Principal | Interest | Total Requirements |
|-------------------------|-------------|--------------|-----------------------|
| 2011 | \$ 721,422 | \$ 908,578 | \$ 1,630,000 |
| 2012 | 676,874 | 953,126 | 1,630,000 |
| 2013 | 634,461 | 995,539 | 1,630,000 |
| 2014 | 589,098 | 1,040,902 | 1,630,000 |
| 2015 | 555,830 | 1,074,170 | 1,630,000 |
| 2016-2020 | 2,313,492 | 5,836,508 | 8,150,000 |
| 2021-2025 | 338,269 | 1,101,730 | 1,439,999 |
| Totals | \$5,829,446 | \$11,910,553 | \$17,739,999 |

There are a number of limitations and restrictions contained in the various general obligation bond indentures. The District is in compliance with all significant limitations and restrictions at August 31, 2010.

J. Changes in Long-Term Liabilities

The following changes occurred in long-term liabilities during the year:

| | Beginning Balance | Increase | Decrease | Ending Balance | Amounts Due In One Year |
|-------------------------|----------------------|-----------|-------------|-------------------|----------------------------|
| Governmental Activities | | | | | |
| Gen. Obligation Bonds | \$ 6,597,600 | \$ 0 | \$ 768,154 | \$ 5,829,446 | \$ 721,422 |
| Accreted Interest | 8,486,013 | 696,766 | 861,846 | 8,320,933 | 0 |
| Compensated Absences | 420,417 | 0 | 45,683 | 374,734 | 374,734 |
| | \$15,504,030 | \$696,766 | \$1,675,683 | \$14,525,113 | \$1,096,156 |

K. Commitments under operating leases

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

| | |
|-----------------------|----------------|
| Year Ending August 31 | |
| 2011 | \$2,748 |
| Thereafter | 0 |
| Total Minimum Rentals | <u>\$2,748</u> |

Rental expenditures in Fiscal Year 2010: \$6,597.

L. Defined Benefit Pension Plan

Plan Description. The District contributes to the Teacher Retirement System of Texas (“TRS”), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional

retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. TRS issues a publicly available financial report that includes financial statements and required supplemental information for the defined benefit plan. That report may be obtained by writing to the TRS Communication Department, 1000 Red River, Austin, Texas 78701, by calling the TRS Communication Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2010, 2009 and 2008, a state contribution rate of 6.58% for fiscal years 2010, 2009 and 2008. In certain instances the reporting district is required to make all or a portion of the state's 6.58% contribution for fiscal year. State contributions to TRS made on behalf of the District's employees for the years ended August 31, 2010, 2009, and 2008 were \$1,598,059, \$973,472, and \$1,006,562, respectively. The District paid additional state contributions for the years ended August 31, 2010, 2009, and 2008, in the amounts of \$198,875, \$179,603, and \$167,287, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

M. 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 required supplemental 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 Communication Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78711 or by calling 1-800-223-8778.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections

1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2010, 2009, and 2008. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2010, 2009, and 2008, the State's contributions to TRS-Care were \$249,697, \$240,787, and \$226,286, respectively, the active member contributions were \$162,301, \$156,513, and \$147,086, respectively, and the District's contributions were \$137,334, \$132,437, and \$124,457, respectively, which equaled the required contributions each year.

N. Retiree Medicare Part D Coverage

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2010, 2009, and 2008, the District recorded \$64,942, \$59,714, and \$52,416, respectively, as on-behalf payments.

O. Health Care Coverage

During the year ended August 31, 2010, employees of the District were covered by the Teacher Retirement System-Active Care, a statewide health coverage program for public education employees. The District paid premiums on behalf of the employees to the Plan; and, employees, at their option, could authorize payroll withholdings to pay premiums for dependents.

P. Worker's Compensation

During the year, the District met its statutory workers' compensation obligations through participation in the Texas Association of School Boards ("TASB") Risk Management Fund (the "Fund"). The Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 491 of the Texas Governmental Code. The Fund's Workers Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

The member participates in the Fund's reimbursable aggregate deductible program. As such, the member is responsible for a certain amount of claims liability as outlined on the member's Contribution and Coverage Summary document. After the member's deductible has been met, the Fund is responsible for additional claims.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. For the year-ended August 31, 2010, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

The Fund engages the services of independent auditors to conduct a financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2009, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

The following is the District's estimated outstanding liability as of August 31, 2010.

| Fund Year | Claim Count at 8/31/10 | Aggregate Liability | Paid Loss & ALAE at 8/31/10 | Estimated Ultimate Loss & ALAE at 8/31/10 | Estimated Outstanding Loss & ALAE at 8/31/10 |
|-----------|------------------------|---------------------|-----------------------------|---|--|
| 2005 | 21 | 171,287 | 56,576 | 73,455 | 16,879 |
| 2006 | 21 | 178,644 | 96,572 | 124,394 | 27,823 |
| 2007 | 20 | 171,720 | 42,996 | 61,547 | 18,551 |
| 2008 | 11 | 181,968 | 6,602 | 20,348 | 13,746 |
| 2009 | 15 | 175,028 | 27,183 | 78,492 | 51,309 |

Q. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2010 are summarized below. All federal grants shown below are passed through TEA and are reported on the combined financial statements as Due from Other Governments.

| Fund | State Entitlements | Federal Grants | Total |
|-----------------|--------------------|----------------|-------------|
| General | \$767,188 | \$ 0 | \$ 767,188 |
| Special Revenue | 24,846 | 1,275,432 | 1,300,278 |
| Totals | \$792,034 | \$1,275,432 | \$2,067,466 |

R. Revenue from Local and Intermediate Sources

During the current year, revenues from local and intermediate sources in the Governmental Fund Types consisted of the following:

| | General Fund | Special Revenue Fund | Debt Service Fund | Fund Totals |
|---|-----------------|----------------------------|----------------------|----------------|
| Property Taxes | \$14,053,185 | \$ 0 | \$1,286,098 | \$15,339,283 |
| Food Sales | 0 | 793,580 | 0 | 793,580 |
| Investment Income | 70,276 | 1,275 | 3,010 | 74,561 |
| Penalties, interest & other tax related income | 253,417 | 0 | 22,796 | 276,213 |
| Co-curricular/Student activities | 193,400 | 185,753 | 0 | 379,153 |
| Other | 126,057 | 247,265 | 0 | 373,322 |
| Total | \$14,696,335 | \$1,227,873 | \$1,311,904 | \$17,236,112 |

S. Litigation

The District participates in numerous state and Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2010 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

T. 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 disasters. During fiscal year 2010, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

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

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) | |
|--|---|---------------|-----------------------------|---|--------------|
| | Original | Final | | | |
| REVENUES: | | | | | |
| 5700 | Total Local and Intermediate Sources | \$ 15,550,000 | \$ 15,295,000 | \$ 14,696,336 | \$ (598,664) |
| 5800 | State Program Revenues | 21,137,400 | 21,137,400 | 19,883,333 | (1,254,067) |
| 5900 | Federal Program Revenues | 325,000 | 325,000 | 450,033 | 125,033 |
| 5020 | Total Revenues | 37,012,400 | 36,757,400 | 35,029,702 | (1,727,698) |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| 0011 | Instruction | 22,838,373 | 21,361,864 | 20,606,393 | 755,471 |
| 0012 | Instructional Resources and Media Services | 518,548 | 517,048 | 465,469 | 51,579 |
| 0013 | Curriculum and Instructional Staff Development | 175,073 | 140,073 | 99,595 | 40,478 |
| 0021 | Instructional Leadership | 589,256 | 589,256 | 548,919 | 40,337 |
| 0023 | School Leadership | 1,827,493 | 1,825,293 | 1,782,313 | 42,980 |
| 0031 | Guidance, Counseling and Evaluation Services | 1,295,078 | 1,294,078 | 1,226,715 | 67,363 |
| 0033 | Health Services | 252,538 | 252,538 | 238,494 | 14,044 |
| 0034 | Student (Pupil) Transportation | 1,365,585 | 1,351,285 | 1,204,769 | 146,516 |
| 0036 | Extracurricular Activities | 1,482,005 | 1,470,920 | 1,406,972 | 63,948 |
| 0041 | General Administration | 1,329,042 | 1,335,969 | 1,213,934 | 122,035 |
| 0051 | Facilities Maintenance and Operations | 5,247,280 | 4,068,824 | 3,646,086 | 422,738 |
| 0052 | Security and Monitoring Services | 136,570 | 136,570 | 103,395 | 33,175 |
| 0053 | Data Processing Services | 596,217 | 459,438 | 440,892 | 18,546 |
| 0061 | Community Services | 20,000 | 20,000 | 20,000 | - |
| Capital Outlay: | | | | | |
| 0081 | Facilities Acquisition and Construction | - | 117,000 | 117,000 | - |
| Intergovernmental: | | | | | |
| 0099 | Other Intergovernmental Charges | 255,000 | 261,000 | 260,053 | 947 |
| 6030 | Total Expenditures | 37,928,058 | 35,201,156 | 33,380,999 | 1,820,157 |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | (915,658) | 1,556,244 | 1,648,703 | 92,459 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| 7912 | Sale of Real and Personal Property | - | - | 11,872 | 11,872 |
| 8911 | Transfers Out (Use) | - | - | (1,513) | (1,513) |
| 7080 | Total Other Financing Sources (Uses) | - | - | 10,359 | 10,359 |
| 1200 | Net Change in Fund Balances | (915,658) | 1,556,244 | 1,659,062 | 102,818 |
| 0100 | Fund Balance - September 1 (Beginning) | - | 11,131,041 | 11,131,041 | - |
| 3000 | Fund Balance - August 31 (Ending) | \$ (915,658) | \$ 12,687,285 | \$ 12,790,103 | \$ 102,818 |

COMBINING SCHEDULES

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

| Data Control Codes | 204 ESEA Title IV Safe & Drug Free Schools | 205 Head Start | 211 ESEA I, A Improving Basic Program | 212 ESEA Title I Part C Migrant | |
|--------------------------------------|---|-------------------|--|--|-------------|
| ASSETS | | | | | |
| 1110 | Cash and Cash Equivalents | \$ - | \$ - | \$ - | \$ - |
| 1220 | Property Taxes - Delinquent | - | - | - | - |
| 1230 | Allowance for Uncollectible Taxes (Credit) | - | - | - | - |
| 1240 | Receivables from Other Governments | 2,783 | 114,526 | 301,036 | - |
| 1290 | Other Receivables | - | - | - | - |
| 1300 | Inventories | - | - | - | - |
| 1410 | Deferred Expenditures | - | - | - | - |
| 1000 | Total Assets | <u>\$ 2,783</u> | <u>\$ 114,526</u> | <u>\$ 301,036</u> | <u>\$ -</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| 2110 | Accounts Payable/Bank Overdraft | \$ 2,783 | \$ 108,608 | \$ 265,576 | \$ - |
| 2160 | Accrued Wages Payable | - | 5,918 | 35,460 | - |
| 2170 | Due to Other Funds | - | - | - | - |
| 2180 | Due to Other Governments | - | - | - | - |
| 2300 | Deferred Revenues | - | - | - | - |
| 2000 | Total Liabilities | <u>2,783</u> | <u>114,526</u> | <u>301,036</u> | <u>-</u> |
| Fund Balances: | | | | | |
| Restricted Fund Balance: | | | | | |
| 3420 | Retirement of Long Term Debt | - | - | - | - |
| Unspendable Fund Balance: | | | | | |
| 3450 | Food Service/Federal or State Funds Restriction | - | - | - | - |
| Committed Fund Balance: | | | | | |
| 3510 | Construction | - | - | - | - |
| Assigned Fund Balance: | | | | | |
| 3590 | Other Purposes | - | - | - | - |
| Unassigned Fund Balance: | | | | | |
| 3610 | Reported in Special Revenue Funds | - | - | - | - |
| 3000 | Total Fund Balances | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 4000 | Total Liabilities and Fund Balances | <u>\$ 2,783</u> | <u>\$ 114,526</u> | <u>\$ 301,036</u> | <u>\$ -</u> |

| 224 IDEA - Part B Formula | 225 IDEA - Part B Preschool | 240 National Breakfast and Lunch Program | 242 Summer Feeding Program | 244 Career and Technical - Basic Grant | 255 ESEA II,A Training and Recruiting | 262 Title II, D Education Technology | 263 Title III, A English Lang. Acquisition |
|---------------------------------|-----------------------------------|---|-------------------------------------|---|--|---|---|
| \$ - | \$ - | \$ 412,022 | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 162,021 | 40,428 | 61,332 | 1,489 | 6,278 | 98,051 | 383 | - |
| - | - | - | - | - | - | - | - |
| - | - | 49,581 | - | - | - | - | - |
| 19,773 | - | - | - | - | - | - | - |
| <u>\$ 181,794</u> | <u>\$ 40,428</u> | <u>\$ 522,935</u> | <u>\$ 1,489</u> | <u>\$ 6,278</u> | <u>\$ 98,051</u> | <u>\$ 383</u> | <u>\$ -</u> |
| \$ 161,414 | \$ 39,179 | \$ - | \$ 1,489 | \$ 6,278 | \$ 98,051 | \$ 383 | \$ - |
| 20,380 | 1,249 | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | 49,581 | - | - | - | - | - |
| <u>181,794</u> | <u>40,428</u> | <u>49,581</u> | <u>1,489</u> | <u>6,278</u> | <u>98,051</u> | <u>383</u> | <u>-</u> |
| - | - | - | - | - | - | - | - |
| - | - | 473,354 | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | 473,354 | - | - | - | - | - |
| <u>\$ 181,794</u> | <u>\$ 40,428</u> | <u>\$ 522,935</u> | <u>\$ 1,489</u> | <u>\$ 6,278</u> | <u>\$ 98,051</u> | <u>\$ 383</u> | <u>\$ -</u> |

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

| Data Control Codes | 266 Title XIV ARRA State Stabilization | 279 Title II, D ARRA - Ed. Technology | 283 IDEA, Pt. B ARRA Formula | 284 IDEA, Pt. B ARRA Preschool | |
|--------------------------------------|---|--|---------------------------------------|---|-----------------|
| ASSETS | | | | | |
| 1110 | Cash and Cash Equivalents | \$ - | \$ - | \$ - | \$ - |
| 1220 | Property Taxes - Delinquent | - | - | - | - |
| 1230 | Allowance for Uncollectible Taxes (Credit) | - | - | - | - |
| 1240 | Receivables from Other Governments | 450,412 | 3,061 | 26,680 | 2,376 |
| 1290 | Other Receivables | - | - | - | - |
| 1300 | Inventories | - | - | - | - |
| 1410 | Deferred Expenditures | - | - | - | - |
| 1000 | Total Assets | <u>\$ 450,412</u> | <u>\$ 3,061</u> | <u>\$ 26,680</u> | <u>\$ 2,376</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| 2110 | Accounts Payable/Bank Overdraft | \$ 450,412 | \$ 3,061 | \$ 26,680 | \$ 2,376 |
| 2160 | Accrued Wages Payable | - | - | - | - |
| 2170 | Due to Other Funds | - | - | - | - |
| 2180 | Due to Other Governments | - | - | - | - |
| 2300 | Deferred Revenues | - | - | - | - |
| 2000 | Total Liabilities | <u>450,412</u> | <u>3,061</u> | <u>26,680</u> | <u>2,376</u> |
| Fund Balances: | | | | | |
| Restricted Fund Balance: | | | | | |
| 3420 | Retirement of Long Term Debt | - | - | - | - |
| Unspendable Fund Balance: | | | | | |
| 3450 | Food Service/Federal or State Funds Restriction | - | - | - | - |
| Committed Fund Balance: | | | | | |
| 3510 | Construction | - | - | - | - |
| Assigned Fund Balance: | | | | | |
| 3590 | Other Purposes | - | - | - | - |
| Unassigned Fund Balance: | | | | | |
| 3610 | Reported in Special Revenue Funds | - | - | - | - |
| 3000 | Total Fund Balances | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 4000 | Total Liabilities and Fund Balances | <u>\$ 450,412</u> | <u>\$ 3,061</u> | <u>\$ 26,680</u> | <u>\$ 2,376</u> |

| 285 ESEA I,A Improving Basic Program | 289 Summer School LEP | 397 Advanced Placement Incentives | 401 Optional Extended Year Program | 404 Student Success Initiative | 411 Technology Allotment | 426 TX Educator Excellence Award Grant | 428 High School Allotment |
|---|--------------------------------|--|---|---|--------------------------------|---|---------------------------------|
| \$ - | \$ 1,026 | \$ 26,036 | \$ - | \$ - | \$ - | \$ - | \$ 237,687 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 4,576 | - | - | 12,333 | 12,513 | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| <u>\$ 4,576</u> | <u>\$ 1,026</u> | <u>\$ 26,036</u> | <u>\$ 12,333</u> | <u>\$ 12,513</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 237,687</u> |
| \$ 4,576 | \$ - | \$ - | \$ 12,333 | \$ 12,513 | \$ - | \$ - | \$ - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | 1,026 | - | - | - | - | - | - |
| - | - | 26,036 | - | - | - | - | - |
| <u>4,576</u> | <u>1,026</u> | <u>26,036</u> | <u>12,333</u> | <u>12,513</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | 237,687 |
| - | - | - | - | - | - | - | 237,687 |
| <u>\$ 4,576</u> | <u>\$ 1,026</u> | <u>\$ 26,036</u> | <u>\$ 12,333</u> | <u>\$ 12,513</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 237,687</u> |

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

| Data Control Codes | 429 Texas Ed. Library Award | 461 Campus Activity Funds | 483 Local Grants | Total Nonmajor Special Revenue Funds | |
|--------------------------------------|---|------------------------------------|------------------------|---|---------------------|
| ASSETS | | | | | |
| 1110 | Cash and Cash Equivalents | \$ 89 | \$ 139,165 | \$ 103,899 | \$ 919,924 |
| 1220 | Property Taxes - Delinquent | - | - | - | - |
| 1230 | Allowance for Uncollectible Taxes (Credit) | - | - | - | - |
| 1240 | Receivables from Other Governments | - | - | - | 1,300,278 |
| 1290 | Other Receivables | - | - | - | - |
| 1300 | Inventories | - | - | - | 49,581 |
| 1410 | Deferred Expenditures | - | - | - | 19,773 |
| 1000 | Total Assets | <u>\$ 89</u> | <u>\$ 139,165</u> | <u>\$ 103,899</u> | <u>\$ 2,289,556</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| 2110 | Accounts Payable/Bank Overdraft | \$ - | \$ - | \$ - | \$ 1,195,712 |
| 2160 | Accrued Wages Payable | - | - | - | 63,007 |
| 2170 | Due to Other Funds | - | - | - | - |
| 2180 | Due to Other Governments | - | - | - | 1,026 |
| 2300 | Deferred Revenues | 89 | - | - | 75,706 |
| 2000 | Total Liabilities | <u>89</u> | <u>-</u> | <u>-</u> | <u>1,335,451</u> |
| Fund Balances: | | | | | |
| Restricted Fund Balance: | | | | | |
| 3420 | Retirement of Long Term Debt | - | - | - | - |
| Unspendable Fund Balance: | | | | | |
| 3450 | Food Service/Federal or State Funds Restriction | - | - | - | 473,354 |
| Committed Fund Balance: | | | | | |
| 3510 | Construction | - | - | - | - |
| Assigned Fund Balance: | | | | | |
| 3590 | Other Purposes | - | 139,165 | - | 139,165 |
| Unassigned Fund Balance: | | | | | |
| 3610 | Reported in Special Revenue Funds | - | - | 103,899 | 341,586 |
| 3000 | Total Fund Balances | <u>-</u> | <u>139,165</u> | <u>103,899</u> | <u>954,105</u> |
| 4000 | Total Liabilities and Fund Balances | <u>\$ 89</u> | <u>\$ 139,165</u> | <u>\$ 103,899</u> | <u>\$ 2,289,556</u> |

| 599 Debt Service Fund | 699 Capital Projects Fund | Total Nonmajor Governmental Funds |
|--------------------------------|------------------------------------|--|
| \$ 835,252 | \$ 25,012 | \$ 1,780,188 |
| 114,872 | - | 114,872 |
| (1,149) | - | (1,149) |
| - | - | 1,300,278 |
| 1,000 | - | 1,000 |
| - | - | 49,581 |
| - | - | 19,773 |
| <u>\$ 949,975</u> | <u>\$ 25,012</u> | <u>\$ 3,264,543</u> |
| | | |
| \$ - | \$ - | \$ 1,195,712 |
| - | - | 63,007 |
| 90,561 | - | 90,561 |
| - | - | 1,026 |
| 113,724 | - | 189,430 |
| <u>204,285</u> | <u>-</u> | <u>1,539,736</u> |
| | | |
| 745,690 | - | 745,690 |
| - | - | 473,354 |
| - | 25,012 | 25,012 |
| - | - | 139,165 |
| - | - | 341,586 |
| <u>745,690</u> | <u>25,012</u> | <u>1,724,807</u> |
| | | |
| <u>\$ 949,975</u> | <u>\$ 25,012</u> | <u>\$ 3,264,543</u> |

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

| Data Control Codes | 204 ESEA Title IV Safe & Drug Free Schools | 205 Head Start | 211 ESEA I, A Improving Basic Program | 212 ESEA Title I Part C Migrant | |
|--|--|--------------------|--|--|--------------------|
| REVENUES: | | | | | |
| 5700 | Total Local and Intermediate Sources | \$ - | \$ - | \$ - | \$ - |
| 5800 | State Program Revenues | - | - | - | - |
| 5900 | Federal Program Revenues | 16,594 | 225,017 | 1,133,449 | - |
| 5020 | Total Revenues | <u>16,594</u> | <u>225,017</u> | <u>1,133,449</u> | <u>-</u> |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| 0011 | Instruction | 3,302 | 218,466 | 735,180 | - |
| 0012 | Instructional Resources and Media Services | - | - | - | - |
| 0013 | Curriculum and Instructional Staff Development | 3,500 | - | 144,398 | - |
| 0021 | Instructional Leadership | - | - | 3,492 | - |
| 0023 | School Leadership | - | - | - | - |
| 0031 | Guidance, Counseling and Evaluation Services | 9,792 | - | 147,155 | - |
| 0033 | Health Services | - | - | 60,231 | - |
| 0034 | Student (Pupil) Transportation | - | 6,551 | - | - |
| 0035 | Food Services | - | - | - | - |
| 0036 | Extracurricular Activities | - | - | - | - |
| 0051 | Facilities Maintenance and Operations | - | - | - | - |
| 0053 | Data Processing Services | - | - | - | - |
| 0061 | Community Services | - | - | 42,993 | - |
| Debt Service: | | | | | |
| 0071 | Debt Service - Principal on Long Term Debt | - | - | - | - |
| 0072 | Debt Service - Interest on Long Term Debt | - | - | - | - |
| 6030 | Total Expenditures | <u>16,594</u> | <u>225,017</u> | <u>1,133,449</u> | <u>-</u> |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| OTHER FINANCING SOURCES (USES): | | | | | |
| 7915 | Transfers In | - | - | - | - |
| 7080 | Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 1200 | Net Change in Fund Balance | - | - | - | - |
| 0100 | Fund Balance - September 1 (Beginning) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 3000 | Fund Balance - August 31 (Ending) | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> | <u><u>\$ -</u></u> |

| 224 IDEA - Part B Formula | 225 IDEA - Part B Preschool | 240 National Breakfast and Lunch Program | 242 Summer Feeding Program | 244 Career and Technical - Basic Grant | 255 ESEA II,A Training and Recruiting | 262 Title II, D Education Technology | 263 Title III, A English Lang. Acquisition |
|---------------------------------|-----------------------------------|---|-------------------------------------|---|--|---|---|
| \$ - | \$ - | \$ 815,154 | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | 56,451 | - | - | - | - | - |
| 996,912 | 53,355 | 1,654,415 | 25,741 | 62,784 | 268,093 | 11,228 | - |
| <u>996,912</u> | <u>53,355</u> | <u>2,526,020</u> | <u>25,741</u> | <u>62,784</u> | <u>268,093</u> | <u>11,228</u> | <u>-</u> |
| 652,122 | 53,355 | - | - | 62,784 | - | 11,228 | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | 268,093 | - | - |
| 42,777 | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| 233,464 | - | - | - | - | - | - | - |
| 25,786 | - | - | - | - | - | - | - |
| 40,629 | - | - | - | - | - | - | - |
| 503 | - | 2,477,652 | 30,947 | - | - | - | - |
| 1,631 | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| <u>996,912</u> | <u>53,355</u> | <u>2,477,652</u> | <u>30,947</u> | <u>62,784</u> | <u>268,093</u> | <u>11,228</u> | <u>-</u> |
| - | - | 48,368 | (5,206) | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | 48,368 | (5,206) | - | - | - | - |
| - | - | 424,986 | 5,206 | - | - | - | - |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 473,354</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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

| Data Control Codes | 266 Title XIV ARRA State Stabilization | 279 Title II, D ARRA - Ed. Technology | 283 IDEA, Pt. B ARRA Formula | 284 IDEA, Pt. B ARRA Preschool | |
|--|--|--|---------------------------------------|---|---------------|
| REVENUES: | | | | | |
| 5700 | Total Local and Intermediate Sources | \$ - | \$ - | \$ - | \$ - |
| 5800 | State Program Revenues | - | - | - | - |
| 5900 | Federal Program Revenues | 1,355,144 | 14,887 | 550,062 | 15,183 |
| 5020 | Total Revenues | <u>1,355,144</u> | <u>14,887</u> | <u>550,062</u> | <u>15,183</u> |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| 0011 | Instruction | 302,116 | - | 318,023 | 15,183 |
| 0012 | Instructional Resources and Media Services | - | - | - | - |
| 0013 | Curriculum and Instructional Staff Development | - | - | - | - |
| 0021 | Instructional Leadership | - | - | 67,549 | - |
| 0023 | School Leadership | - | - | 2,354 | - |
| 0031 | Guidance, Counseling and Evaluation Services | - | - | 40,781 | - |
| 0033 | Health Services | - | - | 4,222 | - |
| 0034 | Student (Pupil) Transportation | - | - | 117,133 | - |
| 0035 | Food Services | - | - | - | - |
| 0036 | Extracurricular Activities | - | - | - | - |
| 0051 | Facilities Maintenance and Operations | 1,053,028 | - | - | - |
| 0053 | Data Processing Services | - | 14,887 | - | - |
| 0061 | Community Services | - | - | - | - |
| Debt Service: | | | | | |
| 0071 | Debt Service - Principal on Long Term Debt | - | - | - | - |
| 0072 | Debt Service - Interest on Long Term Debt | - | - | - | - |
| 6030 | Total Expenditures | <u>1,355,144</u> | <u>14,887</u> | <u>550,062</u> | <u>15,183</u> |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| OTHER FINANCING SOURCES (USES): | | | | | |
| 7915 | Transfers In | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 7080 | Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 1200 | Net Change in Fund Balance | - | - | - | - |
| 0100 | Fund Balance - September 1 (Beginning) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 3000 | Fund Balance - August 31 (Ending) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

| 285 ESEA I,A Improving Basic Program | 289 Summer School LEP | 397 Advanced Placement Incentives | 401 Optional Extended Year Program | 404 Student Success Initiative | 411 Technology Allotment | 426 TX Educator Excellence Award Grant | 428 High School Allotment |
|---|--------------------------------|--|---|---|--------------------------------|---|---------------------------------|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | 841 | 12,333 | 27,412 | 121,590 | 45,000 | - |
| 344,491 | - | - | - | - | - | - | - |
| <u>344,491</u> | <u>-</u> | <u>841</u> | <u>12,333</u> | <u>27,412</u> | <u>121,590</u> | <u>45,000</u> | <u>-</u> |
| 333,997 | - | 841 | 12,333 | 27,412 | 96,329 | 45,000 | 96,149 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | 10,568 | - | - |
| 10,494 | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | 16,206 | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| <u>344,491</u> | <u>-</u> | <u>841</u> | <u>12,333</u> | <u>27,412</u> | <u>123,103</u> | <u>45,000</u> | <u>96,149</u> |
| - | - | - | - | - | (1,513) | - | (96,149) |
| - | - | - | - | - | 1,513 | - | - |
| - | - | - | - | - | 1,513 | - | - |
| - | - | - | - | - | - | - | (96,149) |
| - | - | - | - | - | - | - | 333,836 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 237,687</u> |

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

| Data Control Codes | 429 Texas Ed. Library Award | 461 Campus Activity Funds | 483 Local Grants | Total Nonmajor Special Revenue Funds | |
|--|---|------------------------------------|------------------------|---|-------------------|
| REVENUES: | | | | | |
| 5700 | Total Local and Intermediate Sources | \$ - | \$ 238,006 | \$ 174,713 | \$ 1,227,873 |
| 5800 | State Program Revenues | 63 | - | - | 263,690 |
| 5900 | Federal Program Revenues | - | - | - | 6,727,355 |
| 5020 | Total Revenues | <u>63</u> | <u>238,006</u> | <u>174,713</u> | <u>8,218,918</u> |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| 0011 | Instruction | - | - | 168,130 | 3,151,950 |
| 0012 | Instructional Resources and Media Services | 63 | - | - | 63 |
| 0013 | Curriculum and Instructional Staff Development | - | - | - | 426,559 |
| 0021 | Instructional Leadership | - | - | - | 124,312 |
| 0023 | School Leadership | - | - | - | 2,354 |
| 0031 | Guidance, Counseling and Evaluation Services | - | - | - | 431,192 |
| 0033 | Health Services | - | - | - | 90,239 |
| 0034 | Student (Pupil) Transportation | - | - | - | 164,313 |
| 0035 | Food Services | - | - | - | 2,509,102 |
| 0036 | Extracurricular Activities | - | 233,392 | - | 235,023 |
| 0051 | Facilities Maintenance and Operations | - | - | - | 1,053,028 |
| 0053 | Data Processing Services | - | - | - | 31,093 |
| 0061 | Community Services | - | - | - | 42,993 |
| Debt Service: | | | | | |
| 0071 | Debt Service - Principal on Long Term Debt | - | - | - | - |
| 0072 | Debt Service - Interest on Long Term Debt | - | - | - | - |
| 6030 | Total Expenditures | <u>63</u> | <u>233,392</u> | <u>168,130</u> | <u>8,262,221</u> |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>-</u> | <u>4,614</u> | <u>6,583</u> | <u>(43,303)</u> |
| OTHER FINANCING SOURCES (USES): | | | | | |
| 7915 | Transfers In | - | - | - | 1,513 |
| 7080 | Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>1,513</u> |
| 1200 | Net Change in Fund Balance | - | 4,614 | 6,583 | (41,790) |
| 0100 | Fund Balance - September 1 (Beginning) | <u>-</u> | <u>134,551</u> | <u>97,316</u> | <u>995,895</u> |
| 3000 | Fund Balance - August 31 (Ending) | <u>\$ -</u> | <u>\$ 139,165</u> | <u>\$ 103,899</u> | <u>\$ 954,105</u> |

| 599 Debt Service Fund | 699 Capital Projects Fund | Total Nonmajor Governmental Funds |
|--------------------------------|------------------------------------|--|
| \$ 1,311,904 | \$ - | \$ 2,539,777 |
| 307,337 | - | 571,027 |
| - | - | 6,727,355 |
| <u>1,619,241</u> | <u>-</u> | <u>9,838,159</u> |
| - | - | 3,151,950 |
| - | - | 63 |
| - | - | 426,559 |
| - | - | 124,312 |
| - | - | 2,354 |
| - | - | 431,192 |
| - | - | 90,239 |
| - | - | 164,313 |
| - | - | 2,509,102 |
| - | - | 235,023 |
| - | - | 1,053,028 |
| - | - | 31,093 |
| - | - | 42,993 |
| 768,154 | - | 768,154 |
| 861,846 | - | 861,846 |
| <u>1,630,000</u> | <u>-</u> | <u>9,892,221</u> |
| <u>(10,759)</u> | <u>-</u> | <u>(54,062)</u> |
| - | - | 1,513 |
| - | - | 1,513 |
| (10,759) | - | (52,549) |
| <u>756,449</u> | <u>25,012</u> | <u>1,777,356</u> |
| <u>\$ 745,690</u> | <u>\$ 25,012</u> | <u>\$ 1,724,807</u> |

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REQUIRED TEXAS EDUCATION AGENCY SCHEDULES

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

| Last 10 Years Ended August 31 | (1) | (2) | (3) |
|----------------------------------|-------------|--------------|--|
| | Tax Rates | | Assessed/Appraised Value for School Tax Purposes |
| | Maintenance | Debt Service | |
| 2001 and prior years | Various | Various | \$ 1,505,214,110 |
| 2002 | 1.490000 | 0.100000 | 801,574,665 |
| 2003 | 1.436500 | 0.113500 | 824,217,813 |
| 2004 | 1.490000 | 0.107100 | 864,855,300 |
| 2005 | 1.490000 | 0.107100 | 905,570,370 |
| 2006 | 1.490000 | 0.107100 | 927,397,376 |
| 2007 | 1.360000 | 0.107100 | 1,010,996,932 |
| 2008 | 1.040000 | 0.107100 | 1,135,686,527 |
| 2009 | 1.170000 | 0.107100 | 1,200,932,083 |
| 2010 (School year under audit) | 1.170000 | 0.107100 | 1,360,233,331 |
| 1000 TOTALS | | | |

| (10) Beginning Balance 9/1/2009 | (20) Current Year's Total Levy | (31) Maintenance Collections | (32) Debt Service Collections | (40) Entire Year's Adjustments | (50) Ending Balance 8/31/2010 |
|--|---|------------------------------------|-------------------------------------|---|--|
| \$ 106,470 | \$ - | \$ 2,006 | \$ 143 | \$ (24,084) | \$ 80,237 |
| 37,316 | - | 1,315 | 88 | (6,417) | 29,496 |
| 30,463 | - | 1,726 | 136 | (6,637) | 21,964 |
| 45,630 | - | 4,236 | 305 | (7,189) | 33,900 |
| 77,457 | - | 10,687 | 768 | (8,969) | 57,033 |
| 108,396 | - | 19,885 | 1,429 | (8,196) | 78,886 |
| 149,532 | - | 29,513 | 2,324 | (8,725) | 108,970 |
| 196,562 | - | 42,538 | 4,381 | (26,855) | 122,788 |
| 584,499 | - | 224,674 | 20,566 | (80,540) | 258,719 |
| - | 15,603,237 | 13,716,605 | 1,255,598 | 7,587 | 638,621 |
| <u>\$ 1,336,325</u> | <u>\$ 15,603,237</u> | <u>\$ 14,053,185</u> | <u>\$ 1,285,738</u> | <u>\$ (170,025)</u> | <u>\$ 1,430,614</u> |

DENISON INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2011-2012
 GENERAL AND SPECIAL REVENUE FUNDS
 AUGUST 31, 2010

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

| Account Number | Account Name | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|----------------|---|-----------------------|--------------------------|------------------------|------------------------|----------------------|--------------------------|---------------------|
| | | (702) School Board | (703) Tax Collections | (701) Supt's Office | (750) Indirect Cost | (720) Direct Cost | (other) Miscellaneous | Total |
| 611X-6146 | PAYROLL COSTS | \$ - | \$ - | \$ 198,520 | \$ 724,153 | \$ - | \$ - | \$ 922,673 |
| 6149 | Leave for Separating Employees in Fn 41 & 53 | - | - | - | - | - | - | - |
| 6149 | Leave - Separating Employees not in 41 & 53 | - | - | - | - | - | - | - |
| 6211 | Legal Services | - | - | 12,117 | - | - | - | 12,117 |
| 6212 | Audit Services | - | - | - | 65,442 | - | - | 65,442 |
| 6213 | Tax Appraisal/Collection - Appraisal in Fn 99 | - | 279,464 | - | - | - | - | 279,464 |
| 621X | Other Professional Services | - | - | - | 5,516 | - | - | 5,516 |
| 6220 | Tuition and Transfer Payments | - | - | - | - | - | - | - |
| 6230 | Education Service Centers | - | - | - | 12,828 | - | - | 12,828 |
| 6240 | Contr. Maint. and Repair | - | - | - | - | 495 | - | 495 |
| 6250 | Utilities | - | - | - | - | 2,821 | - | 2,821 |
| 6260 | Rentals | - | - | - | 12,017 | - | - | 12,017 |
| 6290 | Miscellaneous Contr. | - | - | - | - | - | - | - |
| 6320 | Textbooks and Reading | - | - | - | - | - | - | - |
| 6330 | Testing Materials | - | - | - | - | - | - | - |
| 63XX | Other Supplies Materials | - | - | - | 60,229 | - | - | 60,229 |
| 6410 | Travel, Subsistence, Stipends | 4,159 | - | - | 10,004 | - | - | 14,163 |
| 6420 | Ins. and Bonding Costs | - | - | - | 12,120 | - | - | 12,120 |
| 6430 | Election Costs | 6,304 | - | - | - | - | - | 6,304 |
| 6490 | Miscellaneous Operating | - | - | - | 67,798 | - | - | 67,798 |
| 6500 | Debt Service | - | - | - | - | - | - | - |
| 6600 | Capital Outlay | - | - | - | - | - | - | - |
| 6000 | TOTAL | \$ 10,463 | \$ 279,464 | \$ 210,637 | \$ 970,107 | \$ 3,316 | \$ - | \$ 1,473,987 |

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 41,643,223

LESS: Deductions of Unallowable Costs

FISCAL YEAR

| | | |
|--|------|--------------|
| Total Capital Outlay (6600) | (10) | \$ 1,331,201 |
| Total Debt & Lease(6500) | (11) | - |
| Plant Maintenance (Function 51, 6100-6400) | (12) | 4,414,672 |
| Food (Function 35, 6341 and 6499) | (13) | 879,147 |
| Stipends (6413) | (14) | - |
| Column 4 (above) - Total Indirect Cost | | 970,107 |

SubTotal: 7,595,127

Net Allowed Direct Cost \$ 34,048,095

CUMULATIVE

| | | |
|---|------|---------------|
| Total Cost of Buildings before Depreciation (1520) | (15) | \$ 27,822,109 |
| 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) | \$ 6,547,227 |
| Historical Cost of Furniture & Equipment over 16 years old | (19) | \$ 325,378 |
| 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.
 \$260,053 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

DENISON INDEPENDENT SCHOOL DISTRICT
 FUNDBALANCE AND CASH FLOW CALCULATION WORKSHEET
 GENERAL FUND AS OF AUGUST 31, 2010

UNAUDITED

| | | | |
|----|---|-----------|-----------------------|
| 1 | Total General Fund Balance as of 8/31/10 (Exhibit C-1 object 3000 for the General Fund Only) | | \$ 12,790,103 |
| 2 | Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only) | \$ 24,107 | |
| 3 | Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund Only) | 4,500,000 | |
| 4 | Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.) | 3,635,519 | |
| 5 | Estimate of two month's average cash disbursements during the fiscal year. | 7,080,785 | |
| 6 | Estimate of delayed payments from state sources (58xx). | - | |
| 7 | Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount. | 767,188 | |
| 8 | Estimate of delayed payments from federal sources (59xx) | - | |
| 9 | Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds) | - | |
| 10 | Adjustment to meet Board Policy | - | |
| 11 | Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9+10) | | <u>16,007,599</u> |
| 12 | Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 11) | | <u>\$ (3,217,496)</u> |

DENISON INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2010

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) |
|---|------------------|------------|--------------------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| 5700 Total Local and Intermediate Sources | \$ 860,000 | \$ 860,000 | \$ 815,154 | \$ (44,846) |
| 5800 State Program Revenues | 80,000 | 60,000 | 56,451 | (3,549) |
| 5900 Federal Program Revenues | 1,600,000 | 1,600,000 | 1,654,415 | 54,415 |
| 5020 Total Revenues | 2,540,000 | 2,520,000 | 2,526,020 | 6,020 |
| EXPENDITURES: | | | | |
| 0035 Food Services | 2,558,555 | 2,605,555 | 2,477,652 | 127,903 |
| 6030 Total Expenditures | 2,558,555 | 2,605,555 | 2,477,652 | 127,903 |
| 1200 Net Change in Fund Balances | (18,555) | (85,555) | 48,368 | 133,923 |
| 0100 Fund Balance - September 1 (Beginning) | - | 424,986 | 424,986 | - |
| 3000 Fund Balance - August 31 (Ending) | \$ (18,555) | \$ 339,431 | \$ 473,354 | \$ 133,923 |

DENISON INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - DEBT SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2010

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) |
|---|------------------|--------------|--------------------------------|--|
| | Original | Final | | |
| REVENUES: | | | | |
| 5700 Total Local and Intermediate Sources | \$ 1,320,000 | \$ 1,320,000 | \$ 1,311,904 | \$ (8,096) |
| 5800 State Program Revenues | 317,000 | 317,000 | 307,337 | (9,663) |
| 5020 Total Revenues | 1,637,000 | 1,637,000 | 1,619,241 | (17,759) |
| EXPENDITURES: | | | | |
| Debt Service: | | | | |
| 0071 Debt Service - Principal on Long Term Debt | 768,154 | 768,154 | 768,154 | - |
| 0072 Debt Service - Interest on Long Term Debt | 861,846 | 861,846 | 861,846 | - |
| 0073 Debt Service - Bond Issuance Cost and Fees | 5,000 | 5,000 | - | 5,000 |
| 6030 Total Expenditures | 1,635,000 | 1,635,000 | 1,630,000 | 5,000 |
| 1200 Net Change in Fund Balances | 2,000 | 2,000 | (10,759) | (12,759) |
| 0100 Fund Balance - September 1 (Beginning) | - | 756,449 | 756,449 | - |
| 3000 Fund Balance - August 31 (Ending) | \$ 2,000 | \$ 758,449 | \$ 745,690 | \$ (12,759) |

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**REPORTS ON INTERNAL CONTROLS, COMPLIANCE
AND FEDERAL AWARDS**

KIRK & RICHARDSON, P. C.

Members of the American Institute of Certified Public Accountants

| | | |
|-------------------------|--|------------------------------|
| Tom Kirk, CPA | Don Richardson, CPA | Cindy Poole, CPA |
| 7559 John T. White Road | P O. Box 8342 | Fort Worth, Texas 76124-0342 |
| (817) 451-7406 | E-mail: krcpa@flash.net | Fax (817) 451-7597 |

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

Board of Trustees
Denison Independent School District
Denison, Texas

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 Denison Independent School District (the "District") as of and for the year ended August 31, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 28, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reports

In planning and performing our audit, we considered the District's internal control 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all

deficiencies in internal control 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.

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 management of the District in a separate letter dated October 28, 2010.

This report is intended solely for the information and use of the District's Board, the administration, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than those specified parties.

Signed copy on file.

Kirk & Richardson, P.C.
October 28, 2010

KIRK & RICHARDSON, P. C.

Members of the American Institute of Certified Public Accountants

| | | |
|-------------------------|--|------------------------------|
| Tom Kirk, CPA | Don Richardson, CPA | Cindy Poole, CPA |
| 7559 John T. White Road | P O. Box 8342 | Fort Worth, Texas 76124-0342 |
| (817) 451-7406 | E-mail: krcpa@flash.net | Fax (817) 451-7597 |

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

Board of Trustees
Denison Independent School District
Denison, Texas

Members of the Board of Trustees:

Compliance

We have audited the compliance of Denison Independent School District (the "District") with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2010.

Internal Control Over Compliance

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

A 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 would not necessarily identify all deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. 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 for the information of the District's Board, the administration, 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.

Signed copy on file.

Kirk & Richardson, P.C.
October 28, 2010

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

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified.

Internal control over financial reporting:

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

Noncompliance material to financial statements noted? _____ yes _____ no

Federal Awards

Internal control over major programs:

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

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

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

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| 84.010A | ESEA, Title I, Part A – Improving Basic Programs |
| 84.027 | IDEA – Part B, Formula |
| 84.173 | IDEA – Part B, Preschool |
| 84.389 | ESEA, Title I, Part A – ARRA – Improving Basic Programs |
| 84.391 | IDEA, Part B, Formula – ARRA |
| 84.392 | IDEA, Part B, Preschool – ARRA |
| 84.394 | Title XIV, State Fiscal Stabilization Fund - ARRA |

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

Auditee qualified as low risk auditee?: Yes

Section II – Financial Statement Findings

N/A - None

Section III – Federal Award Findings and Questioned Costs

N/A – None.

DENISON INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2010

PRIOR YEAR'S FINDING/NONCOMPLIANCE: None

STATUS OF PRIOR YEAR'S FINDINGS/NONCOMPLIANCE: None required.

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

CORRECTIVE ACTION PLAN: None required.

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

| (1) | (2) | (3) | (4) |
|---|---------------------------|--|-------------------------|
| FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
| U.S. DEPARTMENT OF DEFENSE | | | |
| <u>Direct Programs</u> | | | |
| Flood Control | 12.112 | | \$ 50,148 |
| Total Direct Programs | | | \$ 50,148 |
| TOTAL DEPARTMENT OF DEFENSE | | | \$ 50,148 |
| U.S. DEPARTMENT OF EDUCATION | | | |
| <u>Passed Through State Department of Education</u> | | | |
| ESEA, Title I, Part A - Improving Basic Programs | 84.010A | 10610101091903 | \$ 1,133,449 |
| IDEA - Part B, Formula | 84.027 | 10660001091903 | 996,912 |
| Career and Technical - Basic Grant | 84.048 | 10420006091903 | 62,784 |
| IDEA - Part B, Preschool | 84.173 | 10661001091903 | 53,355 |
| ESEA Title IV, Pt. A - Safe and Drug-Free Schools | 84.186A | 10691001091903 | 16,594 |
| Title II, Part D -Enhancing Ed. Through Technology | 84.318 | 10630001091903 | 11,228 |
| ESEA, Title II, Part A, Teacher/Principal Training | 84.367A | 10694501091903 | 268,093 |
| Title II D Enhancing Ed. Through Technology - ARRA | 84.386 | 10553001091903 | 14,887 |
| ESEA, Title I, A - ARRA - Improving Basic Programs | 84.389 | 10551001091903 | 344,491 |
| IDEA, Part B, Formula - ARRA | 84.391 | 10554001091903 | 550,062 |
| IDEA, Part B, Preschool - ARRA | 84.392 | 10555001091903 | 15,183 |
| Title XIV, State Fiscal Stabilization Fund - ARRA | 84.394 | 10557001091903 | 1,355,144 |
| Total Passed Through State Department of Education | | | \$ 4,822,182 |
| TOTAL DEPARTMENT OF EDUCATION | | | \$ 4,822,182 |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| <u>Passed Through State Department of Education</u> | | | |
| Head Start | 93.600 | 06CH0391 | \$ 225,017 |
| Total Passed Through State Department of Education | | | \$ 225,017 |
| TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | \$ 225,017 |
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| <u>Passed Through the State Department of Agriculture</u> | | | |
| School Breakfast Program* | 10.553 | | \$ 481,512 |
| National School Lunch Program - Cash Assistance* | 10.555 | | 1,103,607 |
| National School Lunch Prog. - Non-Cash Assistance* | 10.555 | | 69,296 |
| Total CFDA Number 10.555 | | | 1,172,903 |
| Summer Feeding Program - Cash Assistance | 10.559 | | 25,741 |
| Total Passed Through the State Department of Agriculture | | | \$ 1,680,156 |
| TOTAL DEPARTMENT OF AGRICULTURE | | | \$ 1,680,156 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ 6,777,503 |

*Clustered Programs as required by Compliance Supplement March, 2010

**DENISON INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES
OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2010**

1. For all federal programs, the District uses the fund types specified in Texas Education Agency's "Financial Accountability System Resource Guide." Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance is generally accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types and Expendable Trust Funds, if any, are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund that is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types, the Expendable Trust Funds, if any, and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred expenditures until earned.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions of Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement – Provisional 6/97.
4. The District participates in numerous Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2010, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying financial statements for such contingencies.

SCHOOLS FIRST QUESTIONNAIRE

DENISON INDEPENDENT SCHOOL DISTRICT

Fiscal Year 2010

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| SF2 | Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations? | No |
| SF4 | Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report? | Yes |
| SF5 | Did the Annual Financial Report disclose any instances of material weaknesses in internal controls? | No |
| SF9 | Was there any disclosure in the Annual Financial Report of material noncompliance? | No |
| SF10 | Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end. | 8320933 |