

**ABERNATHY INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2011**

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ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2011**

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CERTIFICATE OF BOARD

Abernathy Independent School District  
Name of School District

Hale  
County

095-901  
Co. - Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) \_\_\_\_\_ approved \_\_\_\_\_ disapproved for the year ended June 30, 2011, at a meeting of the Board of Trustees of such school district on the \_\_\_\_ day of November, 2011.

\_\_\_\_\_  
Signature of Board Secretary

\_\_\_\_\_  
Signature of Board President

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

## **FINANCIAL SECTION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**8215 NASHVILLE AVENUE**

**LUBBOCK, TEXAS 79423-1954**

**Independent Auditors' Report**

**UNQUALIFIED OPINION ON THE BASIC FINANCIAL STATEMENTS**

Board of School Trustees  
Abernathy Independent School District  
Abernathy, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Abernathy Independent School District (the District), as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Abernathy Independent School District, as of June 30, 2011, and the respective changes in financial position and, where applicable, the cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2011, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's discussion and analysis and budgetary comparison information on pages 3-8 and 34, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Abernathy Independent School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The other supplementary information, including the Texas Education Agency requested schedules, listed in the table of contents are likewise presented for purposes of additional analysis and also not a required part of the basic financial statements. Such information has 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.

*Balinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

October 21, 2011

# **ABERNATHY INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **INTRODUCTION**

Our discussion and analysis of the Abernathy Independent School District's financial performance provides an overview of the District's financial performance for the year ended June 30, 2011. It should be read in conjunction with the District's Basic Financial Statements and Independent Auditors' Report.

The Management's Discussion and Analysis (MD&A) is an element of the new financial reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June, 1999. The Texas Education Agency mandated all school districts in Texas adopt the financial reporting model effective September 1, 2001.

## **FINANCIAL HIGHLIGHTS**

- The net assets of the District increased by \$1,516,464 or 18%. This increase is primarily due to an increase in capital assets. The District's statement of activities showed total revenues were \$10,588,287, and expenses totaled \$9,071,823.
- The District ended the year, June 30, 2011, with total net assets of \$9,980,124, and unrestricted net assets of \$4,869,605. The balance of cash and investments at June 30, 2011, was \$9,705,379.
- Total general fund expenditures were \$7,510,253 for the year ended June 30, 2011, this compares with general fund expenditures of \$7,733,282 for the year ended June 30, 2010. This decrease in expenditures reflects expense containment.
- The District's total revenues on the fund financial statements increased from \$10,227,858 in 2009-10 to \$10,604,511 in 2010-11, due to increase in property tax revenue as a result of higher property values.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.

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

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

The notes to the financial statements provide narrative explanations and additional data needed for full disclosure in the government-wide statements and the fund financial statements.

The combining statements for nonmajor funds contain information about the District's individual nonmajor funds. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

## **Reporting the District as a Whole**

### ***Government-Wide Financial Statements***

The analysis of the District's overall financial condition and operations is presented in the Statement of Net Assets and the Statement of Activities. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These statements apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net assets and changes in them. The District's net assets (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Assets and the Statement of Activities, the District is reporting its governmental activities. The District currently has no business type activities or component units as defined in the GASB Statement No. 34.

- Governmental activities – All of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

## **Reporting the District's Most Significant Funds**

### ***Fund Financial Statements***

The fund financial statements provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received from the U.S. Department of Education through TEA. The District's administration establishes many other funds to help it control and manage money for particular purposes. The District's three fund types—governmental, proprietary and fiduciary – use different accounting approaches.

- Governmental funds – Most of the District's basic services are included in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following the fund financial statements.

· Proprietary funds – The District reports the activities for which it charges users (other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. The internal service funds (the District’s only category of proprietary funds) report activities that provide worker’s compensation insurance coverage to the District’s other programs and activities.

Fiduciary funds – The District is the trustee, or fiduciary, for money raised by student activities. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the government wide financial statements because the District cannot use these assets to finance its operations.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### Changes in Net Assets

The District’s net assets increased during the year ended June 30, 2011. The net assets increased by \$1,516,464 (see Table II). The net assets of the District’s Internal Service Fund decreased by \$19,330. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$4,869,605 at June 30, 2011. This compares with the District’s unrestricted net assets at June 30, 2010 of \$4,650,538, an increase of \$219,067.

**Table I**

**Abernathy Independent School District  
Net Assets  
June 30, 2011 and 2010**

	June 30, 2011	June 30, 2010
Cash and Temporary Investments	\$ 9,705,379	\$ 13,069,031
Receivables	702,520	1,696,109
Capitalized Bond and Other Debt Issuance Costs	313,976	267,671
Capital Assets	<u>15,934,839</u>	<u>3,693,718</u>
Total Assets	<u>\$ 26,656,714</u>	<u>\$ 18,726,529</u>
Current Liabilities	\$ 2,882,792	\$ 900,474
Long-Term Liabilities	<u>13,793,798</u>	<u>9,362,395</u>
Total Liabilities	<u>\$ 16,676,590</u>	<u>\$ 10,262,869</u>
Net Assets		
Invested in Capital Assets		
Net of Related Debt	\$ 3,011,963	\$ 2,688,381
Restricted for Debt Service	327,216	310,142
Restricted for Capital Projects	1,771,340	814,599
Unrestricted Net Assets	<u>4,869,605</u>	<u>4,650,538</u>
Total Net Assets	<u>\$ 9,980,124</u>	<u>\$ 8,463,660</u>

**Table II**

**Abernathy Independent School District  
Changes in Net Assets For the Years Ended  
June 30, 2011 and 2010**

	June 30,	
	2011	2010
Revenues:		
Program Revenues:		
Charges For Services	\$ 204,196	\$ 219,879
Operating Grants and Contributions	1,522,163	1,231,391
General Revenues:		
Maintenance and Operations Taxes	5,445,327	4,851,690
Debt Service Taxes	1,596,516	1,367,823
State Formula Aid	1,671,816	2,475,075
Investment Earnings	37,772	64,340
Miscellaneous	110,497	32,045
Total Revenue	\$ <u>10,588,287</u>	\$ <u>10,242,243</u>
Expenses:		
Instruction and Instructional-Related Services	\$ 4,845,170	\$ 4,936,773
Instructional and School Leadership	598,371	577,823
Student Support Services	244,590	261,290
Student Transportation	170,268	140,380
Food Services	266,934	298,276
Extracurricular Activities	486,655	520,084
General Administration	477,876	502,868
Plant Maintenance and Data Processing	955,701	1,011,994
Data Processing Services	150,941	65,268
Community Services	11,333	41,849
Debt Service	690,436	410,541
Facilities Acquisition and Construction		60,999
Payments to Fiscal Agent/Member Districts	90,408	123,674
Other Intergovernmental Charges	83,140	73,869
	\$ <u>9,071,823</u>	\$ <u>9,025,688</u>
Increase in Net Assets	\$ 1,516,464	\$ 1,216,555
Net Assets - Beginning of Year	<u>8,463,660</u>	<u>7,247,105</u>
Net Assets - End of Year	<u>\$ 9,980,124</u>	<u>\$ 8,463,660</u>

The District's total revenues increased from \$10,242,243 in fiscal year 2010 to \$10,588,287, an increase of \$346,044. This increase was attributable to higher property values resulting in an increase in tax collections. The total expenses of the District increased by \$46,135 from \$9,025,688 to \$9,071,823.

Other factors impacting the District's financial position include the following:

- The District's total property tax rate remained unchanged at \$1.50 per 100 dollars of valuation. The District Appraised valuation of taxable property increased from \$407,731,073 to \$459,135,676, an increase of \$51,404,603 or 12.6%. This increase is related primarily to mineral values. The total school property taxes assessed for school year 2011 were \$6,887,035. This is an increase of \$771,069 from the \$6,115,966 assessed in 2010, and is a result of higher property values.
- The District's average daily attendance (ADA) is the basis for most of the State funding received. The ADA decrease 2% from 2010 to 2011, contributing to a decrease in base state revenues from \$2,472,122 in 2010 to \$1,671,816 in 2011 due to an increase in local property tax revenue.

### **Fund Balances**

The District's total Governmental Funds fund balance was \$8,287,366. This fund balance is reported in the various Governmental funds as follows:

#### **General Fund**

Unassigned \$2,844,429 – This balance is available for current spending, however, it has been the practice of the District to try and maintain a fund balance that is at least four months operating expenses.

Committed for Construction \$1,900,000 – This represents amounts the Board of Trustees has earmarked for future facilities and transportation expenditures.

#### **Debt Service**

Restricted for Retirement of Long Term Debt \$306,313 – These funds are restricted by debt service covenants to fund the principal and interest payments of the bond issue.

#### **Capital Projects**

Restricted for Capital Acquisitions and Contractual Obligations \$3,231,872 – This balance is restricted for the renovation of the high school, construction of the gymnasium, and other facility improvements from bond proceeds sold in August 2009, September 2010, and February 2011.

### **Budgetary Highlights**

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments were necessary to accommodate changes in federal program allotments. None of the amendments made were considered to be significant changes.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### Capital Assets

At the end of 2011, the District had \$15,934,839 of capital assets, net of accumulated depreciation. Financial statement footnote no. 6 discloses the capital asset activity of the District for the year ended June 30, 2011.

### Debt

The District entered the year with \$312,726 of outstanding debt related to capital leases from prior year. Footnote no. 8 discloses the activity of the districts capital lease obligations and other debt instrument for the year ended June 30, 2011.

In the prior year, the District issued \$9,880,000 in unlimited school building bonds and \$120,000 of capital appreciation bonds. During the current year, the District issued \$5,900,000 in unlimited school building bonds. The proceeds will be used for the renovations of the high school, construction of the gymnasium, and other facility improvements. Currently, there is \$12,709,246 in construction work in progress for these projects. Footnote no. 8 discloses the issuance and activity for bonds for the year ended June 30, 2011.

## **FACTORS BEARING ON THE DISTRICT'S FUTURE**

The District's elected and appointed officials considered factors such as the economy and enrollment trends, when setting the fiscal year 2012 budget and tax rates. Amounts available for appropriation in the General Fund budget for 2012 are \$7,713,313. Assessed property values for 2012 are \$566,185,092, an increase of 23% over the 2011 property values of \$459,135,676. The District's tax rate of \$1.50 per \$100 valuation in 2011 remains the same at \$1.50 per \$100 valuation in 2012 resulting in an increase of about \$1.2 million of local revenues as a result of a slight increase in mineral values and the construction of the new Antelope Station northeast of Abernathy. Current attendance figures remain constant, and state revenues are expected to decrease as a result of a \$4 billion across the board cut to education funding in the state budget. Additionally, for the 2011-2012 school year, the District is a Chapter 41 District and has budgeted to pay approximately \$151,000 in State Recapture payments for wealth equalization.

Both of these factors were considered when setting the budgetary expenditures for 2012. Budgeted expenditures are expected to decrease 9% to \$7.2 million in 2012 from \$7.9 million in 2011. This is due to a revenue shortfall at the state level. The District has added no major new programs or initiatives to the 2012 budget and plans to continue all programs currently offered.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to show 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 office, at Abernathy Independent School District, 505 7<sup>th</sup> Street, Abernathy, Texas 79311.

## **BASIC FINANCIAL STATEMENTS**

ABERNATHY INDEPENDENT SCHOOL DISTRICT

Exhibit A-1

STATEMENT OF NET ASSETS

JUNE 30, 2011

Data Control Codes		Primary Government
		Governmental Activities
	ASSETS AND OTHER DEBTS:	
1110	Cash and Temporary Investments	\$ 9,705,379
1220	Property Taxes - Delinquent	197,777
1230	Allowance for Uncollectible Taxes	(7,758)
1240	Due from Other Governments	512,501
1420	Capitalized Bond and Other Debt Issuance Costs	313,976
	Capital Assets:	
1510	Land	266,732
1520	Buildings, Net	2,339,313
1530	Furniture and Equipment, Net	243,101
1540	Vehicles, Net	174,979
1550	Leased Property Under Capital Leases	201,468
1580	Construction Work in Progress	<u>12,709,246</u>
1000	Total Assets	\$ <u>26,656,714</u>
	LIABILITIES:	
2110	Accounts Payable	\$ 1,499,815
2140	Interest Payable	185,266
2150	Payroll Deductions and Withholdings	137,758
2160	Accrued Wages Payable	226,511
2501	Due Within One Year	833,442
2502	Due in More Than One Year	13,679,939
2516	Unamortized Premium (Discount)	<u>113,859</u>
2000	Total Liabilities	\$ <u>16,676,590</u>
	NET ASSETS:	
3200	Invested in Capital Assets, Net of Related Debt	\$ 3,011,963
3850	Restricted for Debt Service	327,216
3860	Restricted for Capital Projects	1,771,340
3900	Unrestricted Net Assets	<u>4,869,605</u>
3000	Total Net Assets	\$ <u><u>9,980,124</u></u>

The accompanying notes are an integral part of this statement.

ABERNATHY INDEPENDENT SCHOOL DISTRICT

Exhibit B-1

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011

		Program Revenues			Net (Expense)
		1	3	4	Revenue and Changes in Net Assets
Data Control Codes		Expenses	Charges for Services	Operating Grants and Contributions	Total Governmental Activities
11	Instruction	\$ 4,779,817	\$ 123,027	\$ 1,097,637	\$ (3,559,153)
12	Instructional Resources and Media Services	65,353		3,025	(62,328)
13	Curriculum and Staff Development	72,094		4,681	(67,413)
23	School Leadership	526,277		59,467	(466,810)
31	Guidance, Counseling, and Evaluation Services	179,134		64,924	(114,210)
33	Health Services	65,456		4,062	(61,394)
34	Student Transportation	170,268		5,211	(165,057)
35	Food Services	266,934	50,743	214,738	(1,453)
36	Extracurricular Activities	486,655	30,426	9,598	(446,631)
41	General Administration	477,876		18,955	(458,921)
51	Plant Maintenance and Operations	955,701		27,560	(928,141)
52	Security and Monitoring Services	3,803			(3,803)
53	Data Processing Services	147,138		1,526	(145,612)
61	Community Services	11,333		10,779	(554)
72	Interest on Long-Term Debt	646,253			(646,253)
73	Bond Issuance Cost and Fees	44,183			(44,183)
93	Payments to Member Districts of SSA	89,521			(89,521)
95	Payments to Juvenile Justice Alt.Ed.Prg.	887			(887)
99	Other Intergovernmental Charges	83,140			(83,140)
TP Total Primary Government		\$ 9,071,823	\$ 204,196	\$ 1,522,163	\$ (7,345,464)

Data  
Control  
Codes

General Revenues:

MT	Property Taxes, Levied for General Purposes	\$ 5,445,327
DT	Property Taxes, Levied for Debt Service	1,596,516
SF	State Aid Formula Grants	1,671,816
GC	Grants and Contributions not Restricted	24,885
IE	Investment Earnings	37,772
S1	Loss on Disposal of Assets	(13,071)
MI	Miscellaneous Local and Intermediate Revenue	98,683
TR	Total General Revenues and Special Items	\$ 8,861,928
CN	Change in Net Asssets	\$ 1,516,464
NB	Net Assets - Beginning	8,463,660
NE	Net Assets - Ending	\$ 9,980,124

The accompanying notes are an integral part of this statement.

ABERNATHY INDEPENDENT SCHOOL DISTRICT

EXHIBIT C-1

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2011**

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects	Other Governmental Funds	98 Total Governmental Funds
<b>ASSETS</b>					
1110 Cash and Temporary Investments	\$ 4,649,740	\$ 306,313	\$ 4,678,143	\$ 4,752	\$ 9,638,948
1220 Property Taxes - Delinquent	176,874	20,903			197,777
1230 Allowance for Uncollectible Taxes	(7,758)				(7,758)
1240 Receivables from Other Governments	423,285			89,216	512,501
1260 Due from Other Funds	89,216				89,216
1000 Total Assets	<u>\$ 5,331,357</u>	<u>\$ 327,216</u>	<u>\$ 4,678,143</u>	<u>\$ 93,968</u>	<u>\$ 10,430,684</u>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
2110 Accounts Payable	\$ 53,543	\$	\$ 1,446,271	\$	\$ 1,499,814
2150 Payroll Deductions and Withholdings Payable	137,758				137,758
2160 Accrued Wages Payable	226,511				226,511
2170 Due to Other Funds				89,216	89,216
2300 Deferred Revenue	169,116	20,903			190,019
2000 Total Liabilities	<u>\$ 586,928</u>	<u>\$ 20,903</u>	<u>\$ 1,446,271</u>	<u>\$ 89,216</u>	<u>\$ 2,143,318</u>
<b>Fund Balances:</b>					
<b>Restricted for:</b>					
3470 Capital Acquisitions and Contractual Obligations	\$	\$	\$ 3,231,872	\$	\$ 3,231,872
3480 Debt Service		306,313			306,313
<b>Committed for:</b>					
3510 Construction	1,900,000				1,900,000
<b>Assigned for:</b>					
3590 Campus Activity Funds				4,752	4,752
3600 Unassigned	2,844,429				2,844,429
3000 Total Fund Balances	<u>\$ 4,744,429</u>	<u>\$ 306,313</u>	<u>\$ 3,231,872</u>	<u>\$ 4,752</u>	<u>\$ 8,287,366</u>
4000 Total Liabilities and Fund Balances	<u>\$ 5,331,357</u>	<u>\$ 327,216</u>	<u>\$ 4,678,143</u>	<u>\$ 93,968</u>	<u>\$ 10,430,684</u>

The accompanying notes are an integral part of this statement.

ABERNATHY INDEPENDENT SCHOOL DISTRICT

Exhibit C-2

RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT  
OF NET ASSETS  
JUNE 30, 2011

Data  
Control  
Codes

	Total Fund Balances - Governmental Funds (Exhibit C-1)	\$ 8,287,366
1	The District uses internal service funds to charge the costs of certain activities, such as workers compensation, to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase net assets.	66,431
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 \$9,433,203 and the accumulated depreciation was \$(5,739,485). The beginning long-term debt was \$(9,608,917). The net effect of the beginning balances for capital assets net of depreciation and long-term debt is to decrease net assets.	(5,915,199)
3	Bond issuances provide current financial resources to governmental funds but does not effect the Statement of Activities. During the year, the district issued capital bonds of \$(5,900,000) recognizing a net of \$(72,471) for bond premiums and incurring \$72,471 in issuance costs.	(5,900,000)
4	Current year net accretion on capital appreciation bonds and premium amortization, as well as accrued interest payable.	(38,031)
5	Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statement, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2011 capital outlays \$12,654,878 and debt principal payments \$1,074,584 is to increase net assets.	13,729,462
6	The 2011 depreciation expense and loss on disposal of assets increases accumulated depreciation. The net effect of the current year's depreciation and loss is to decrease net assets.	(413,757)
7	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 property tax revenue as revenue, eliminating interfund transactions, and recognizing the amortization of bond issuance costs and discounts. The net effect of these reclassifications and recognitions is to increase net assets.	163,852
19	Net Assets - Governmental Activities (See A-1)	\$ <u>9,980,124</u>

The accompanying notes are an integral part of this statement.

## ABERNATHY INDEPENDENT SCHOOL DISTRICT

Exhibit C-3

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2011**

Data Control Codes		10 General Fund	50 Debt Service Fund	60 Capital Projects	Other Governmental Funds	98 Total Governmental Funds
Revenues:						
5700	Local and Intermediate Sources	\$ 5,705,569	\$ 1,611,906	\$ 17,427	\$ 52,435	\$ 7,387,337
5800	State Program Revenues	2,032,802			32,643	2,065,445
5900	Federal Program Revenues	<u>24,103</u>			<u>1,127,626</u>	<u>1,151,729</u>
5030	Total Revenues	<u>\$ 7,762,474</u>	<u>\$ 1,611,906</u>	<u>\$ 17,427</u>	<u>\$ 1,212,704</u>	<u>\$ 10,604,511</u>
Expenditures:						
0011	Instruction	\$ 3,699,478	\$	\$	\$ 842,820	\$ 4,542,298
0012	Instructional Resources and Media Services	62,142				62,142
0013	Curriculum and Staff Development	67,761			749	68,510
0023	School Leadership	467,518			32,670	500,188
0031	Guidance, Counseling, and Evaluation Services	112,014			58,211	170,225
0033	Health Services	61,901			303	62,204
0034	Student Transportation	160,749				160,749
0035	Food Services				258,990	258,990
0036	Extracurricular Activities	533,252			899	534,151
0041	General Administration	454,240				454,240
0051	Plant Maintenance and Operations	921,927				921,927
0052	Security and Monitoring Services	3,620				3,620
0053	Data Processing Services	176,133				176,133
0061	Community Services				10,779	10,779
0071	Principal on Long-Term Debt	66,584	1,008,000			1,074,584
0072	Interest on Long-Term Debt	16,961	580,778			597,739
0073	Bond Issuance Cost and Fees		73,471	27,500		100,971
0081	Facilities Acquisition and Construction	532,425		11,984,123		12,516,548
0093	Payments to Member Districts of SSA	89,521				89,521
0095	Payments to Juvenile Justice Alternative Ed. Prg.	887				887
0099	Other Intergovernmental Charges	<u>83,140</u>				<u>83,140</u>
6050	Total Expenditures	<u>\$ 7,510,253</u>	<u>\$ 1,662,249</u>	<u>\$ 12,011,623</u>	<u>\$ 1,205,421</u>	<u>\$ 22,389,546</u>
1100	Excess (Deficit) of Revenues Over Expenditures	<u>\$ 252,221</u>	<u>\$ (50,343)</u>	<u>\$ (11,994,196)</u>	<u>\$ 7,283</u>	<u>\$ (11,785,035)</u>
Other Financing Sources (Uses):						
7911	Capital Related Debt Issued (Regular Bonds)	\$	\$	\$ 5,900,000	\$	\$ 5,900,000
7915	Transfers In	236,654				236,654
7916	Premium or Discount on Issuance of Bonds		72,471			72,471
8911	Transfers Out (Use)	<u>(230,164)</u>			<u>(6,490)</u>	<u>(236,654)</u>
7080	Total Other Financing Sources (Uses)	<u>\$ 6,490</u>	<u>\$ 72,471</u>	<u>\$ 5,900,000</u>	<u>\$ (6,490)</u>	<u>\$ 5,972,471</u>
1200	Net Change in Fund Balance	\$ 258,711	\$ 22,128	\$ (6,094,196)	\$ 793	\$ (5,812,564)
0100	July 1 - Fund Balance	<u>4,485,718</u>	<u>284,185</u>	<u>9,326,068</u>	<u>3,959</u>	<u>14,099,930</u>
3000	June 30 - Fund Balance	<u>\$ 4,744,429</u>	<u>\$ 306,313</u>	<u>\$ 3,231,872</u>	<u>\$ 4,752</u>	<u>\$ 8,287,366</u>

The accompanying notes are an integral part of this statement.

**ABERNATHY INDEPENDENT SCHOOL DISTRICT**

**Exhibit C-4**

**RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE  
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

Net change in fund balances - Total Governmental Funds (Exhibit C-3) \$ (5,812,564)

Amounts reported for governmental activities in the statement of activities (B-1) are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays \$12,654,878 exceeded depreciation \$(400,686) and loss on disposal of assets of \$(13,071) in the current period.	12,241,121
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. This is the net amount by which deferred property tax revenue changed between the current year \$190,019 and the prior year \$(193,171).	(3,152)
Bond issuances provide current financial resources to governmental funds but does not effect the Statement of Activities. During the year, the district issued capital bonds of \$(5,900,000) recognizing a net of \$(72,471) for bond premiums and incurring \$72,471 in issuance costs.	(5,900,000)
Repayment of the bond and other long-term debt principal \$1,074,584 is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This amount of repayments including amortization of bond issue costs and discounts of \$(15,683).	1,058,901
Current year accretion on capital appreciation bonds, premium amortization and accrued interest payable.	(48,512)
Internal service funds are used by management to charge the costs of certain activities, such as workers compensation, to individual funds. The net revenue of the internal service fund is reported with governmental activities. (See D-2)	<u>(19,330)</u>
Change in net assets of governmental activities (Exhibit B-1)	<u>\$ 1,516,464</u>

The accompanying notes are an integral part of this statement.

ABERNATHY INDEPENDENT SCHOOL DISTRICT

Exhibit D-1

STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2011

		Governmental Activities
		<u>Internal</u>
		Worker's Compensation Service Fund
ASSETS:		
Cash and Temporary Investments	\$	<u>66,431</u>
Total Assets	\$	<u>66,431</u>
NET ASSETS:		
Unrestricted Net Assets	\$	<u><u>66,431</u></u>

The accompanying notes are an integral part of this statement.

ABERNATHY INDEPENDENT SCHOOL DISTRICT

Exhibit D-2

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN  
NET ASSETS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2011

		Governmental Activities
		<u>Internal</u>
		Worker's Compensation Service Fund
OPERATING REVENUES		
Charges to Other Funds	\$	12,274
Total Revenues	\$	<u>12,274</u>
OPERATING EXPENSES		
Fixed Costs and Fees	\$	21,880
Claims Paid		6,305
Cost Sharing		3,419
Total Expenses	\$	<u>31,604</u>
Change in Net Assets	\$	(19,330)
Net Assets - July 1 (Beginning)		<u>85,761</u>
Net Assets - June 30 (Ending)	\$	<u><u>66,431</u></u>

The accompanying notes are an integral part of this statement.

ABERNATHY INDEPENDENT SCHOOL DISTRICT

Exhibit D-3

STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2011

	Governmental Activities
	<u>Internal Workers' Compensation Service Fund</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	
Cash Flows from Operating Activities	
Cash Receipts from Charges to Other Funds	\$ 12,274
Cash Payments to Suppliers for Goods and Services	<u>(31,604)</u>
Net Cash Provided by Operating Activities	\$ <u>(19,330)</u>
Net Decrease in Cash and Cash Equivalents	\$ (19,330)
Cash and Cash Equivalents at Beginning of the Year	<u>85,761</u>
Cash and Cash Equivalents at End of Year	\$ <u><u>66,431</u></u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED IN OPERATING ACTIVITIES	
Operating Loss	\$ (19,330)
Changes in Assets and Liabilities	
(Increase) Decrease in Due from Other Funds	<u>0</u>
Net Cash Used in Operating Activities	\$ <u><u>(19,330)</u></u>

The accompanying notes are an integral part of this statement.

ABERNATHY INDEPENDENT SCHOOL DISTRICT

Exhibit E-1

STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUND  
JUNE 30, 2011

	<u>Agency Funds</u>
ASSETS:	
Cash and Temporary Investments	\$ <u>67,097</u>
Total Assets	\$ <u>67,097</u>
LIABILITIES:	
Accounts Payable	\$ 65
Due to Student Groups	<u>67,032</u>
Total Liabilities	\$ <u>67,097</u>
NET ASSETS:	
Unrestricted Net Assets	\$ <u><u>0</u></u>

The accompanying notes are an integral part of this statement.

**ABERNATHY INDEPENDENT SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Abernathy Independent School District's (the District) basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

**A. REPORTING ENTITY**

The Board of School Trustees (the Board), a seven member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board of Trustees is elected by the public. The Board has the exclusive power and duty to govern and oversee the management of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (the 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. The District is not included in any other governmental "reporting entity" as defined in governmental accounting and financial reporting standards. There are no component units included within the reporting entity.

The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding entities.

**B. BASIS OF ACCOUNTING AND PRESENTATION**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The Statement of Net Assets and the Statement of Activities display information about the government-wide entity as a whole. These statements report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental Activities, which normally are supported by taxes, state foundation funds, grants, and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support (i.e., internal service funds are considered governmental activities and not business-type activities). The District currently has no business type activities.

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

## **ABERNATHY INDEPENDENT SCHOOL DISTRICT**

### **NOTES TO FINANCIAL STATEMENTS**

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

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Indirect expenses of other functions are not allocated to those functions but are reported separately in the Statement of Activities. Depreciation expense is specifically identified by function and is included in the direct expense to each function allocated. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

#### **FUND FINANCIAL STATEMENTS**

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. Major governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues from local sources consist primarily of property taxes. No amounts have been recorded for property tax revenues collected after June 30, 2011. State revenues 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.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

In the fund financial statements, governmental fund types recognize the face amount of the debt issued as other financing sources.

The proprietary fund and the fiduciary fund financial statements reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. 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.

## ABERNATHY INDEPENDENT SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS

Propriety funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations, they usually come from exchange or exchange-like transactions. Interest income earned on the operating cash account is considered operating revenue. All other revenues are non-operating.

#### GOVERNMENTAL FUND TYPES

The District reports the following major governmental funds:

**General Fund** – This fund is established to account for resources used for general 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. This is a budgeted fund and undesignated fund balances are considered resources available for current operations.

**Capital Projects Fund** – This governmental fund is established to account for proceeds, on a modified accrual basis, from the sale of bonds and other resources to be used for Board-authorized construction of major capital facilities. Upon completion of a project, any unused bond proceeds are transferred to the debt service fund and are used to retire related bond principal.

**Debt Service Fund** – This fund is used to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which tax has been dedicated. This is a budgeted fund and any unused sinking fund balances will be transferred to the general fund after all of the related debt obligations have been met.

Additionally, the government reports the following fund types:

**Special Revenue Funds** – These funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal financial assistance generally is accounted for in a special revenue fund. Except for the food service fund, any unused balances are returned to the grantor at the close of specified project periods. The food service fund is the only required budgeted special revenue fund. For all other funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds. The District's food service fund is considered a special revenue fund since the general fund subsidizes the food service program for all expenditures in excess of NSLP and user fees. Food service fund balances, if any, are used exclusively for child nutrition program purposes.

#### PROPRIETARY FUND TYPES

**Internal Service Funds** – Internal service funds are used to account for revenues and expenses related to services provided to parties inside the District, specifically for the operation of its partially-funded insurance plan for workers' compensation on a cost-reimbursement basis.

**ABERNATHY INDEPENDENT SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**FIDUCIARY FUND TYPES**

**Agency Funds** – These custodial funds are used to account for activities of student groups and other organizational activities requiring clearing accounts. Financial resources for the agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. Student activity organizations exist with the explicit approval of, and are subject to revocation by, the District's Board of Trustees. If any unused resources are declared surplus by the student groups, they are transferred to the general fund with a recommendation to the Board for an appropriate utilization through a budgeted program.

**C. BASIS OF ACCOUNTING APPLICABLE TO ALL FINANCIAL STATEMENTS**

Capital assets, which include buildings and improvements, furniture and equipment, vehicles and work in progress, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets useful lives are not capitalized.

Revenues from state and federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant. Funds received but unexpended are reflected as deferred revenues, and funds expended but not yet received are shown as receivables. If balances have not been expended by the end of the project period, grantors generally require the District to refund all or part of the unused amount.

Supplies and materials are debited as expenditures when purchased.

It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. Retiring employees meeting the District's local leave reimbursement policy, will be paid lump sum up to a specified amount. This amount is deemed immaterial and is not reflected in the District's financial statements.

Since Internal Service Funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-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.

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.

In accordance with the FAR, the District has adopted and installed an accounting system which exceeds the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure presented in the Accounting Code Section of the FAR. Mandatory codes are utilized in the form provided in that section.

**ABERNATHY INDEPENDENT SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**D. BUDGETARY DATA**

The official budget was prepared on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America, for the general fund and the food service special revenue fund. The remaining special revenue funds adopt project-length budgets which do not correspond to the District's fiscal year. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to June 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least 10 days public notice of the meeting must be given.
- c. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board.

The budget is prepared and controlled at the function level within each fund and is amended at this level as needed. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. Such amendments are made before the fact and they are reflected in the official minutes of the Board. During the year, several amendments were necessary.

**E. ENCUMBRANCE ACCOUNTING**

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at June 30, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at June 30, 2011.

**F. FUND EQUITY**

During the current year, the District has adopted GASB Statement 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Restricted – Amounts that can be spent only for specific purposes because of restrictions by external sources (creditors, laws of other governments, etc) or by constitutional provision or enabling legislation.

Committed – Amounts that can be used only for specific purposes determined by formal action by the Board of Trustees, the highest level of decision making authority.

Assigned – Amounts that can be used for a specific purpose as expressed by the authorized administrator, the Superintendent.

**ABERNATHY INDEPENDENT SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

Unassigned – Amounts not included in other spendable classifications.

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

During the year, the Board of Trustees adopted a minimum fund balance policy for the general fund. The policy requires the unassigned fund balance at fiscal year end to be at least 20% of the current fiscal expenditures less capital outlay and transfers out budgeted for the fund.

**G. NET ASSETS ON THE STATEMENT OF NET ASSETS**

Net assets on the statement of net assets include the following:

Investment in Capital Assets, Net of Related Debt – this component of net assets represents the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, which is directly attributable to the acquisition, construction or improvement of those assets.

Restricted for Capital Projects – this component of net assets represents the difference between assets and liabilities, net of unspent bond proceeds.

Restricted for Debt Service – this component of net assets represents the difference between assets and liabilities of the debt service fund that consists of assets with constraints placed on their use by creditors.

Unrestricted – the difference between assets and liabilities that is not reported in Net Assets Invested in Capital Assets, Net of Related Debt.

**H. CASH AND CASH EQUIVALENTS – PROPRIETARY FUNDS**

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

**I. MANAGEMENT'S USE OF ESTIMATES**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

ABERNATHY INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) (the Act) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. 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 deposit, (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, and (10) 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.

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 not address the following risks:

- a. Custodial Credit Risk – Deposits and Investments: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits and investments in certificates of deposits may not be returned to it. The District's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state or local governments by pledging securities in excess of the highest cash balance of the government. The District is not exposed to custodial credit risk for its deposits and investments in certificates of deposit are all covered by depository insurance and pledged securities held by a third party in the District's name.
- b. Concentration of Credit Risk – The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the total entity investments represent a concentration risk. At June 30, 2011, all of the District's investments are in certificates of deposit with its depository bank, and are completely covered by pledged securities as described in the preceding paragraph.
- c. Credit Risk – Not applicable
- d. Interest Rate Risk – Not applicable
- e. Foreign Currency Risk – Not applicable

**ABERNATHY INDEPENDENT SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

The carrying amount of the District's cash and temporary investments at June 30, 2011, approximates fair value and consisted of the following shown below:

	General Fund	Debt Service Fund	Capital Projects Fund	Other Funds	Government- Wide Total	Agency Fund	Total
Cash in Bank	\$ 670,755	\$ 14,113	\$ 8,502	\$ 71,183	\$ 764,553	\$ 61,089	\$ 825,642
Money Market Account	468,316				468,316		468,316
Lone Star Investments	3,510,669	292,200	4,669,641		8,472,510		8,472,510
Certificates of Deposit					0	6,008	6,008
	<u>\$ 4,649,740</u>	<u>\$ 306,313</u>	<u>\$ 4,678,143</u>	<u>\$ 71,183</u>	<u>\$ 9,705,379</u>	<u>\$ 67,097</u>	<u>\$ 9,772,476</u>

**Public Funds Investment Pools**

Public funds investment pools in Texas (Pools) are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to:

1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investment in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

**3. 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 are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Delinquent taxes are recorded in the general fund as the District has no debt service requirements. All property taxes remaining uncollected after 10 years are provided for in the allowance for uncollectible 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.

**ABERNATHY INDEPENDENT SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**4. RECIEVABLE FROM OTHER GOVERNMENTS**

The amount due from other governments consisted of \$512,501 due primarily from the State for amount earned and receivable under the Foundation and Per Capita programs and unreimbursed grant expenditures.

**5. INTERFUND RECEIVABLES AND PAYABLES**

Interfund balances at June 30, 2011, consisted of the following individual fund receivables and payables:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund		
Special Revenue Funds	\$ <u>89,216</u>	\$ <u>          </u>
Special Revenue Funds		
General Fund	\$ <u>          </u>	\$ <u>89,216</u>

**6. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2011, was as follows:

	<u>6/30/10</u>	<u>Additions</u>	<u>Deletions</u>	<u>6/30/11</u>
Capital Assets:				
Land	\$ 130,824	\$ 135,908	\$	\$ 266,732
Work in Progress	734,623	11,974,623		12,709,246
Building and Improvements	6,566,660	406,017	31,341	6,941,336
Furniture and Equipment	285,200	138,330		423,530
Capital Lease Items	739,346		75,776	663,570
Vehicles	976,550		26,754	949,796
	<u>\$ 9,433,203</u>	<u>\$ 12,654,878</u>	<u>\$ 133,871</u>	<u>\$ 21,954,210</u>
Accumulated Depreciation				
Building and Improvements	\$ 4,390,157	\$ 230,136	\$ 18,270	\$ 4,602,023
Furniture and Equipment	140,445	39,984		180,429
Capital Lease Items	461,091	76,787	75,776	462,102
Vehicles	747,792	53,779	26,754	774,817
	<u>\$ 5,739,485</u>	<u>\$ 400,686</u>	<u>\$ 120,800</u>	<u>\$ 6,019,371</u>
Total Net Capital Assets	<u>\$ 3,693,718</u>	<u>\$ 12,254,192</u>	<u>\$ 13,071</u>	<u>\$ 15,934,839</u>

**ABERNATHY INDEPENDENT SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

Depreciation expense was charged to functions of the primary government as follows:

Instruction	\$ 229,624
Instruction Resources and Media Services	3,141
Curriculum and Instructional Staff Development	3,463
School Leadership	25,286
Guidance, Counseling, and Evaluation Services	8,605
Health Services	3,144
Student (Pupil) Transportation	8,126
Food Services	13,093
Cocurricular/Extracurricular Activities	27,003
General Administration	22,963
Plant Maintenance and Operations	46,606
Security and Monitoring Services	183
Data Processing Services	8,904
Community Services	545
	<u>\$ 400,686</u>

Capital assets are being depreciated using the straight line method over the following useful lives:

Buildings and Improvements	15 – 30 years
Furniture and Equipment	5 – 12 years
Vehicles	5 – 10 years

**7. DEFERRED REVENUES**

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. Deferred revenues consisted of the following at June 30, 2011:

	General Fund	Debt Service Fund	Total
Property Taxes - Delinquent	\$ 176,874	\$ 20,903	\$ 197,777
Less: Allowance for Uncollectible Taxes	(7,758)		(7,758)
Total Tax Deferred Revenues	<u>\$ 169,116</u>	<u>\$ 20,903</u>	<u>\$ 190,019</u>

ABERNATHY INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

8. LONG-TERM DEBT

General Obligation Bonds

A summary of changes in bonds payable for the year ended June 30, 2011, is as follows:

Description	Interest Rate	Amount Originally Issued	Amount Outstanding 6/30/2010	Issued Current Year	Increases Current Year	Retired Current Year	Amount Outstanding 6/30/2011
2009 Unlimited Tax School Building Bonds	2.5 - 5.0%	\$ 7,470,000	\$ 6,530,000	\$		\$	\$ 6,530,000
2009 Capital Appreciation Bonds	1.75 - 2.0%	120,000	120,000			70,000	50,000
Accumulated Accretion			126,253		188,986		315,239
2009A Unlimited Tax School Building Bonds	2.5 - 4.75%	2,410,000	2,410,000				2,410,000
2010 Unlimited Tax School Building Bonds	1.5 - 1.75%	1,000,000		1,000,000		938,000	62,000
2011 Unlimited Tax School Building Bonds	2.0 - 3.0%	4,900,000		4,900,000			4,900,000
		<u>\$ 15,900,000</u>	<u>\$ 9,186,253</u>	<u>\$ 5,900,000</u>	<u>\$ 188,986</u>	<u>\$ 1,008,000</u>	<u>\$ 14,267,239</u>

On August 15, 2009, the District issued \$9,880,000 in unlimited school building bonds and \$120,000 of capital appreciation bonds with an average interest rate of 3.82% for the 2009 bonds and 3.71% for the 2009A bonds. The District is using the bonds to renovate the high school building, construct new gymnasium, and other facility improvements. Interest expenditures for bonded debt for the year ended June 30, 2011, totaled \$97,976.

On September 1, 2010, the District issued \$1,000,000 in unlimited school building bonds with an average interest rate of 1.63%. The District is using the bonds to renovate the high school building, construct new gymnasium and other facility improvements. Interest expenditures for bonded debt for the year ended June 30, 2011, totaled \$7,939.

On February 15, 2011, the District issued \$4,900,000 in unlimited school building bonds with an average interest rate of 2.27%. The District is using the bonds to construct a new Field House and Ag Building. Interest expenditures for the bonded debt for the year ended June 30, 2011, totaled \$41,188.

**ABERNATHY INDEPENDENT SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

Debt service requirements are as follows:

Fiscal Year Ending June 30,	2009 and 2009A		2010 and 2011		Total
	Principal	Interest	Principal	Interest	
2012	\$ 50,000	\$ 384,214	\$ 742,000	\$ 100,174	\$ 1,276,388
2013	265,000	380,902	795,000	79,991	1,520,893
2014	270,000	373,876	820,000	61,325	1,525,201
2015	280,000	365,963	845,000	43,650	1,534,613
2016	290,000	357,194	865,000	26,550	1,538,744
2017-2021	1,605,000	1,623,129	895,000	8,950	4,132,079
2022-2026	1,965,000	1,260,739			3,225,739
2027-2031	2,465,000	761,413			3,226,413
2032-2034	1,800,000	138,000			1,938,000
	<u>\$ 8,990,000</u>	<u>\$ 5,645,430</u>	<u>\$ 4,962,000</u>	<u>\$ 320,640</u>	<u>\$ 19,918,070</u>

**9. OBLIGATIONS UNDER CAPITAL LEASE**

A summary of the activity for the District's capital lease obligations is as follows:

Date of Issue	Description	Interest Rate	Amounts Outstanding 6/30/2010	Issued Current Year	Retired Current Year	Amounts Outstanding 6/30/2011
7/15/2008	Dell Computers (Lab New)	5.07%	\$ 44,719	\$	\$ 35,827	\$ 8,892
8/31/2002	Energy Mgmt. System	6.20%	268,007		30,757	237,250
	Total Leases		<u>\$ 312,726</u>	<u>\$ 0</u>	<u>\$ 66,584</u>	<u>\$ 246,142</u>

The Energy Management System lease is a 15-year lease originating August, 2002. Payments are due quarterly. Four payments totaling \$45,396, which included interest of \$14,638, were made during the year.

The Dell Computer (Lab New) lease is a three year lease originating July 15, 2008. One payment totaling \$38,149, which included interest of \$2,323 was made during the year.

**ABERNATHY INDEPENDENT SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

Future minimum payments for these leases are as follows:

Fiscal Year Ending June 30,	
2012	\$ 54,750
2013	45,396
2014	45,396
2015	45,396
2016	45,396
2017-2018	56,743
Total Payments	\$ 293,077
Less: Interest	(46,935)
Total Principal	\$ 246,142

**10. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES**

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property Taxes, Penalties, Interest, and Other Tax-Related Income	\$ 5,443,424	\$	\$ 1,601,540	\$	\$ 7,044,964
Food Sales		50,743			50,743
Honda Special Education Coop	144,772				144,772
Interest Income	9,979		10,366	17,427	37,772
Co-curricular Student Activities	30,426				30,426
Insurance Recovery	340				340
Foundations/Gifts	37,507				37,507
Rent	9,500				9,500
Other	29,621	1,692			31,313
	<u>\$ 5,705,569</u>	<u>\$ 52,435</u>	<u>\$ 1,611,906</u>	<u>\$ 17,427</u>	<u>\$ 7,387,337</u>

**11. DEFINED BENEFIT PENSION PLAN**

Plan Description – All employees of the District employed for one-half or more of the standard work load and who are not exempt from membership under Texas Government Code, participate in 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 system of Texas. It operates primarily under the provisions of the Texas Constitution and Texas Government Code. TRS also administers proportional retirement benefits and service credit transfers under Texas Government Code. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling TRS at 1-800-223-8778, or by downloading the report from the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publication heading.

**ABERNATHY INDEPENDENT SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

Funding Policy – State law provides for fiscal years 2009, 2010, and 2011, a state contribution rate of 6.64% and a member contribution rate of 6.4%. In certain instances the District is required to make all or a portion of the State's 6.64% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to state funding policy. State contributions TRS made on behalf of the District's employees for the years ended June 30 2009, 2010, and 2011, were \$296,525, \$334,723, and \$346,672 respectively. The amounts contributed by the State are reflected in the financial statements in the general fund by respective function, in accordance with Governmental Accounting Standards Board Statement No. 24. The District paid additional state contributions for the years ended June 30, 2009, 2010, and 2011, in the amount of \$42,650, \$41,451, and \$41,073 respectively, on the portion of the employees' salaries that exceeded the statutory minimum and those salaries funded from federal grants, equal to the required contributions for each year. Additionally, payments made on behalf of the District by the State for Medicare Part D fringe benefits and salaries amounted to \$13,531 for the year ended June 30, 2011.

The payroll for employees covered by the System for the years ended June 30, 2009, 2010, and 2011, were \$4,633,201, \$4,977,626, and \$5,086,527 respectively. The school district's total payroll was \$4,794,440, \$5,085,090, and \$5,179,899 respectively.

**12. SELF-INSURANCE – WORKMEN'S COMPENSATION**

The District participates in a public entity risk pool for its Workmen's Compensation Insurance needs. Over one hundred school districts participate in the pool administered by Claims Administrative Services, Inc. The agreement between the District and the pool is renewable annually on September 1. The District's maximum loss under the agreement for 2011 was set at \$41,418, excluding fixed costs of \$20,693. The pool is protected against unanticipated catastrophic loss by stop loss coverage provided through Midwest Employers Casualty Corporation. The stop loss policy covers individual claims in excess of \$500,000. The District accounts for its costs associated with the pool through an internal service fund.

The claims administrator for the pool has estimated the District's share of unpaid claims as of August 31, 2011, to be \$39,891 including estimated claims incurred but not reported of \$29,306. The District has not recorded any claims payable at June 30, 2011, related to this liability.

**13. LITIGATION**

There is no litigation pending against the District which would have a material effect on the financial statements.

**ABERNATHY INDEPENDENT SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**14. COMMITMENTS AND CONTINGENCIES**

Federal and State Funding

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

The District has a construction contracts outstanding for the renovation of the High School and the construction of a new Gym, Field House, and Ag Building. The total contract amount is \$14,427,789. Total remaining at June 30, 2011 on these contracts is \$3,152,429.

**15. SUBSEQUENT EVENTS**

The District's management has evaluated subsequent events through October 21, 2011, the date which the financial statements were available for issue.

The District entered into a lease agreement for 250 Dell Computers subsequent to year end. Total amount of lease was \$228,263 for 48 months with an interest rate of 4.28%.

**16. HEALTH CARE COVERAGE**

During the year ended June 30, 2011, employees of the District were covered by a health insurance plan through TRS Active Care. The District contributed \$225 of the employee-only premium per month and employees, at their option, authorized payroll withholdings to pay contributions for dependents. Under this plan, the District is not liable for costs incurred beyond the premiums paid.

## **REQUIRED SUPPLEMENTARY INFORMATION**

## ABERNATHY INDEPENDENT SCHOOL DISTRICT

Exhibit G-1

**BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

Data Control Codes		1	2	3	Variance With Final Budget Favorable (Unfavorable)
		Budgeted Amounts			
		Original	Final	Actual	
Revenues:					
5700	Local and Intermediate Sources	\$ 5,722,866	\$ 5,722,866	\$ 5,705,569	\$ (17,297)
5800	State Program Revenues	2,025,372	1,955,372	2,032,802	77,430
5900	Federal Program Revenues	<u>20,000</u>	<u>20,000</u>	<u>24,103</u>	<u>4,103</u>
5020	Total Revenues	\$ <u>7,768,238</u>	\$ <u>7,698,238</u>	\$ <u>7,762,474</u>	\$ <u>64,236</u>
Expenditures:					
0011	Instruction	\$ 3,935,987	\$ 3,885,987	\$ 3,699,478	\$ 186,509
0012	Instructional Resources and Media Services	68,012	68,012	62,142	5,870
0013	Curriculum and Staff Development	71,285	71,285	67,761	3,524
0023	School Leadership	475,232	475,232	467,518	7,714
0031	Guidance, Counseling, and Evaluation Services	138,303	118,303	112,014	6,289
0033	Health Services	62,073	62,073	61,901	172
0034	Student Transportation	179,221	179,221	160,749	18,472
0036	Extracurricular Activities	508,237	538,237	533,252	4,985
0041	General Administration	479,172	479,172	454,240	24,932
0051	Plant Maintenance and Operations	1,030,061	1,030,061	921,927	108,134
0052	Security and Monitoring Services	5,200	5,200	3,620	1,580
0053	Data Processing Services	105,544	188,544	176,133	12,411
0071	Principal on Long-Term Debt	69,150	69,150	66,584	2,566
0072	Interest on Long-Term Debt	14,650	14,650	16,961	(2,311)
0081	Facilities Acquisition and Construction	316,751	540,751	532,425	8,326
0093	Payments to Fiscal Agent/Member District of SSA	195,000	90,000	89,521	479
0095	Payments to Juvenile Justice Alternative Ed. Prg.	2,000	2,000	887	1,113
0099	Other Intergovernmental Charges	<u>74,000</u>	<u>90,000</u>	<u>83,140</u>	<u>6,860</u>
6030	Total Expenditures	\$ <u>7,729,878</u>	\$ <u>7,907,878</u>	\$ <u>7,510,253</u>	\$ <u>397,625</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	\$ <u>38,360</u>	\$ <u>(209,640)</u>	\$ <u>252,221</u>	\$ <u>461,861</u>
Other Financing Sources (Uses):					
7915	Transfers In	\$ 250,416	\$ 250,416	\$ 236,654	\$ (13,762)
8911	Transfers Out	<u>(288,776)</u>	<u>(250,416)</u>	<u>(230,164)</u>	<u>20,252</u>
7080	Total Other Financing Sources (Uses)	\$ <u>(38,360)</u>	\$ <u>0</u>	\$ <u>6,490</u>	\$ <u>6,490</u>
1200	Net Change in Fund Balance	\$ 0	\$ (209,640)	\$ 258,711	\$ 468,351
0100	July 1 - Fund Balance	<u>4,485,718</u>	<u>4,485,718</u>	<u>4,485,718</u>	<u>0</u>
3000	June 30 - Fund Balance	\$ <u>4,485,718</u>	\$ <u>4,276,078</u>	\$ <u>4,744,429</u>	\$ <u>468,351</u>

**OTHER SUPPLEMENTARY INFORMATION**  
**EXHIBITS H-1 THROUGH J-4**

ABERNATHY INDEPENDENT SCHOOL DISTRICT

Exhibit H-1

COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2011

	Special Revenue Funds						Total Nonmajor Governmental June 30, 2011
	211 Improving Basic Program	212 Title I Part C Migrant	255 ESEA Title II, Part A Training & Recruiting	266 Title XIV ARRA State Stabilization	404 Student Success Initiative	461 Campus Activity Funds	
ASSETS:							
Cash and Temporary Investments	\$	\$	\$	\$	\$	\$ 4,752	\$ 4,752
Due from Other Governments	<u>6,235</u>	<u>10,553</u>	<u>1,234</u>	<u>65,158</u>	<u>6,036</u>		<u>89,216</u>
Total Assets	<u>\$ 6,235</u>	<u>\$ 10,553</u>	<u>\$ 1,234</u>	<u>\$ 65,158</u>	<u>\$ 6,036</u>	<u>\$ 4,752</u>	<u>\$ 93,968</u>
LIABILITIES:							
Due to Other Funds	<u>\$ 6,235</u>	<u>\$ 10,553</u>	<u>\$ 1,234</u>	<u>\$ 65,158</u>	<u>\$ 6,036</u>	<u>\$</u>	<u>\$ 89,216</u>
Total Liabilities	<u>\$ 6,235</u>	<u>\$ 10,553</u>	<u>\$ 1,234</u>	<u>\$ 65,158</u>	<u>\$ 6,036</u>	<u>\$ 0</u>	<u>\$ 89,216</u>
FUND EQUITY:							
Assigned for:							
Campus Activity Funds	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 4,752</u>	<u>\$ 4,752</u>
Total Fund Equity	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 4,752</u>	<u>\$ 4,752</u>
Total Liabilities and Fund Equity	<u>\$ 6,235</u>	<u>\$ 10,553</u>	<u>\$ 1,234</u>	<u>\$ 65,158</u>	<u>\$ 6,036</u>	<u>\$ 4,752</u>	<u>\$ 93,968</u>

ABERNATHY INDEPENDENT SCHOOL DISTRICT

Exhibit H-2  
(Continued)

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue Funds				
	211 ESEA Title I Part A Improving Basic Program	212 ESEA Title I Part C Migrant Children	240 National School Breakfast and Lunch Program	255 ESEA Title II, Training and Recruitment	266 Title XIV ARRA State Stabilization
REVENUES:					
Local and Intermediate Sources	\$	\$	\$ 50,743	\$	\$
State Program Revenues			1,867		
Federal Program Revenues	148,919	55,312	212,870	43,064	651,575
Total Revenues	\$ 148,919	\$ 55,312	\$ 265,480	\$ 43,064	\$ 651,575
EXPENDITURES:					
Instruction	\$ 90,708	\$ 11,560	\$	\$ 43,064	\$ 651,575
Instructional Resources and Media Services					
Curriculum and Instructional Staff Development					
Instructional Leadership					
School Leadership		32,670			
Guidance, Counseling, and Evaluation Services	58,211				
Health Services		303			
Student Transportation					
Food Services			258,990		
Extracurricular Activities					
General Administration					
Plant Maintenance and Operations					
Data Processing Services					
Community Services		10,779			
Total Expenditures	\$ 148,919	\$ 55,312	\$ 258,990	\$ 43,064	\$ 651,575
Excess of Revenues Over Expenditures	\$ 0	\$ 0	\$ 6,490	\$ 0	\$ 0
Transfers In Other (Uses)			(6,490)		
Excess of Revenues and Other Resources Over Expenditures and Other	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Fund Balance - July 1 (Beginning)	0	0	0	0	0
Fund Balance - June 30 (Ending)	0	0	0	0	0

ABERNATHY INDEPENDENT SCHOOL DISTRICT

Exhibit H-2  
(Concluded)

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue Funds					
	279 Title II, D ARRA Ed Technology	285 ESEA I,A Improving Basic Program	404 Accelerated Reading	411 Technology Allotment	461 Campus Activity Funds	Total Nonmajor Governmental Funds
REVENUES:						
Local and Intermediate Sources	\$	\$	\$	\$	\$ 1,692	\$ 52,435
State Program Revenues			8,801	21,975		32,643
Federal Program Revenues	749	15,137				1,127,626
Total Revenues	\$ 749	\$ 15,137	\$ 8,801	\$ 21,975	\$ 1,692	\$ 1,212,704
EXPENDITURES:						
Instruction	\$	\$ 15,137	\$ 8,801	\$ 21,975	\$	\$ 842,820
Instructional Resources and Media Services						0
Curriculum and Instructional Staff Development	749					749
Instructional Leadership						0
School Leadership						32,670
Guidance, Counseling, and Evaluation Services						58,211
Health Services						303
Student Transportation						0
Food Services						258,990
Extracurricular Activities					899	899
General Administration						0
Plant Maintenance and Operations						0
Data Processing Services						0
Community Services						10,779
Total Expenditures	\$ 749	\$ 15,137	\$ 8,801	\$ 21,975	\$ 899	\$ 1,205,421
Excess of Revenues Over Expenditures	\$ 0	\$ 0	\$ 0	\$ 0	\$ 793	\$ 7,283
Transfers In						0
Other (Uses)						(6,490)
Excess of Revenues and Other Resources Over Expenditures and Other	\$ 0	\$ 0	\$ 0	\$ 0	\$ 793	\$ 793
Fund Balance - July 1 (Beginning)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,959	\$ 3,959
Fund Balance - June 30 (Ending)	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,752	\$ 4,752

ABERNATHY INDEPENDENT SCHOOL DISTRICT

Exhibit J-1

SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FOR THE YEAR ENDED JUNE 30, 2011

Last Ten Years Ended June 30,	1	2	3	10	20	31	32	40	50
	Tax Rates		Assessed/ Appraised Value for School Tax Purposes	Beginning Balance 7/1/2010	Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 6/30/2011
	Maintenance	Debt Service							
2002 and Prior Years	Various	Various	\$ Various	\$ 8,744	\$	\$ 984	\$	\$	\$ 7,760
2003	1.48600		210,046,085	3,798		35			3,763
2004	1.50000		200,860,267	6,412		983			5,429
2005	1.50000		200,380,333	6,897		2,718			4,179
2006	1.50000		255,805,086	10,342		3,189			7,153
2007	1.37000		340,140,289	14,726		6,123			8,603
2008	1.17000		354,852,061	15,742		6,462			9,280
2009	1.17000		518,946,507	37,530		13,415		(461)	23,654
2010	1.17000	0.33000	407,731,073	92,031		46,977	1,325	(1,776)	41,953
2011 (School Year Under Audit)	1.15550	0.34450	459,135,676		6,887,035	5,315,278	1,584,693	98,939	86,003
1000 TOTALS				\$ 196,222	\$ 6,887,035	\$ 5,396,164	\$ 1,586,018	\$ 96,702	\$ 197,777

ABERNATHY INDEPENDENT SCHOOL DISTRICT

Exhibit J-2

**SCHEDULE OF EXPENDITURES FOR COMPUTATION OF INDIRECT COST FOR 2012-2013  
GENERAL AND SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2011**

Function 41 and Related Function 53 - General Administration, 99 - Appraisal Direct Cost

Account Number	1 702 School Board	2 703 Tax Collection	3 701 Supt.'s Office	4 750 Indirect Cost	5 720 Direct Cost	6 Other Miscel- laneous	7 Total
611X - 6146	\$	\$	\$ 179,004	\$ 142,391	\$	\$	\$ 321,395
6149-All Functions							
6211					3,039		3,039
6212				19,000			19,000
6213		121,135					121,135
621X				1,705			1,705
6220							0
6230				16,300			16,300
6240							0
6250							0
6260				7,368			7,368
6290				2,400			2,400
6320							0
6330							0
63XX		5,428		5,748	5,353		16,529
6410	3,862		5,773	4,147	1,209		14,991
6420				7,737			7,737
6430							0
6490	7,437		6,436	3,950	1,408		19,231
6500							0
6600							0
6000 - Total	\$ 11,299	\$ 126,563	\$ 191,213	\$ 210,746	\$ 11,009	\$ 0	\$ 550,830

Total Expenditures/Expenses for the General and Special Revenue Funds (Schedule C-3) (9) \$ 8,715,674

Less: Deduction of Unallowable Costs

<u>FISCAL YEAR</u>		
Capital Outlay (6600) (Only Funds 100-199/200-499)	(10)	\$ 560,821
Total Debt and Lease (6500) (Only Funds 100-199/200-499)	(11)	\$ 83,545
Plant Maintenance (Function 51, 6100-6400)	(12)	\$ 921,927
Food (Function 35, 6341 and 6499)	(13)	\$ 116,087
Stipends (6413)	(14)	\$
Column 4 (above) - Total Indirect Cost		\$ 210,746
Subtotal		\$ 1,893,126
Net Allowed Direct Costs		\$ 6,822,548

<u>CUMULATIVE</u>		
Total Cost of Buildings before Depreciation (1520)	(15)	\$ 6,941,336
Historical Cost of Building Over 50 Years Old	(16)	\$
Amount of Federal Money in Building Cost (Net of #16 Above)	(17)	\$
Total Cost of Furniture & Equipment before Depreciation (1520 & 1540)	(18)	\$ 2,036,895
Historical Cost of Furniture and Equipment over 16 years old	(19)	\$ 310,876
Amount of Federal Money in Furniture & Equipment (Net of #19 Above)	(20)	\$ 36,153

(8)- Note A - \$13,450 of amounts in Function 53 expenditures are included in this report on administrative costs.  
Note B - \$83,140 of amounts in Function 99 expenditures are included in this report on administrative costs.

ABERNATHY INDEPENDENT SCHOOL DISTRICT

Exhibit J-3

BUDGETARY COMPARISON SCHEDULE  
CHILD NUTRITION FUND  
FOR THE YEAR ENDED JUNE 30, 2011

Data Control Codes	1 Budgeted Amounts		2	3	Variance With Final Budget Favorable (Unfavorable)
	Original	Final	Actual		
Revenues:					
5700	Local and Intermediate Sources	\$ 45,000	\$ 50,743	\$ 50,743	\$ 0
5800	State Program Revenues	1,850	1,867	1,867	0
5900	Federal Program Revenues	187,000	212,870	212,870	0
5020	Total Revenues	\$ 233,850	\$ 265,480	\$ 265,480	\$ 0
Expenditures:					
0035	Food Services	\$ 272,210	\$ 265,480	\$ 258,990	\$ 6,490
6030	Total Expenditures	\$ 272,210	\$ 265,480	\$ 258,990	\$ 6,490
1100	Deficiency of Revenues Under Expenditures	\$ (38,360)	\$ 0	\$ 6,490	\$ 6,490
Other Financing Sources:					
8911	Transfers Out (Use)	\$ 38,360	\$ 0	\$ (6,490)	\$ (6,490)
1200	Net Change in Fund Balance	\$ 0	\$ 0	\$ 0	\$ 0
0100	July 1 - Fund Balance	0	0	0	0
1300	June 30 - Fund Balance	\$ 0	\$ 0	\$ 0	\$ 0

ABERNATHY INDEPENDENT SCHOOL DISTRICT

Exhibit J-4

**BUDGETARY COMPARISON SCHEDULE  
DEBT SERVICE FUND  
FOR THE YEAR ENDED JUNE 30, 2011**

Data Control Codes		1	2	3	Variance With Final Budget Favorable (Unfavorable)
		Budgeted Amounts			
		Original	Final	Actual	
Revenues:					
5700	Local and Intermediate Sources	\$ 1,606,409	\$ 1,606,409	\$ 1,611,906	\$ 5,497
5800	State Program Revenues				0
5900	Federal Program Revenues				0
5020	Total Revenues	\$ 1,606,409	\$ 1,606,409	\$ 1,611,906	\$ 5,497
Expenditures:					
0071	Principal on Long-Term Debt	\$ 70,000	\$ 1,008,000	\$ 1,008,000	\$ 0
0072	Interest on Long-Term Debt	574,212	580,778	580,778	0
0073	Issuance Costs and Fees		73,471	73,471	0
6030	Total Expenditures	\$ 644,212	\$ 1,662,249	\$ 1,662,249	\$ 0
1100	Deficiency of Revenues Under Expenditures	\$ 962,197	\$ (55,840)	\$ (50,343)	\$ 5,497
Other Financing Sources:					
7916	Premium or Discount on Issuance of Bonds	\$	\$ 71,038	\$ 72,471	\$ 1,433
1200	Net Change in Fund Balance	\$ 962,197	\$ 15,198	\$ 22,128	\$ 6,930
0100	July 1 - Fund Balance	284,185	284,185	284,185	283,985
1300	June 30 - Fund Balance	\$ 1,246,382	\$ 299,383	\$ 306,313	\$ 290,915

## **OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**LUBBOCK, TEXAS 79423-1954**

**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 School Trustees  
Abernathy Independent School District  
Abernathy, Texas

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Abernathy Independent School District (the District) as of and for the year ended June 30, 2011, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Abernathy Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 Abernathy Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

*Balinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

October 21, 2011

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**LUBBOCK, TEXAS 79423-1954**

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A -133**

Board of School Trustees  
Abernathy Independent School District  
Abernathy, Texas

Compliance

We have audited Abernathy Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2011. Abernathy Independent School 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 Abernathy Independent School District's management. Our responsibility is to express an opinion on Abernathy Independent School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Abernathy Independent School 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 Abernathy Independent School District's compliance with those requirements.

In our opinion, Abernathy Independent School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of Abernathy Independent School 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 Abernathy Independent School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

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

*Balinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

October 21, 2011

**FEDERAL FINANCIAL ASSISTANCE SECTION**

**ABERNATHY INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2011**

**A. Section I - Summary of Auditor's Results**

**1. Financial Statements**

Type of auditor's report issued Unqualified

Internal control over financial reporting

Material weakness(es) identified? \_\_\_\_\_ yes X no

Significant deficiencies identified that are not considered to be material weaknesses? \_\_\_\_\_ yes X none reported

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

**2. Federal Awards**

Internal control over major programs:

Material weakness(es) identified? \_\_\_\_\_ yes X no

Significant deficiency identified that are not considered to be material weaknesses? \_\_\_\_\_ yes X none reported

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<b>84.010A</b>	<b>Improving Basic Programs</b>
<b>84.389A</b>	<b>Improving Basic Programs - ARRA</b>
<b>84.394A</b>	<b>State Fiscal Stabilization Fund - ARRA</b>

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

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes X no

**B. Section II - Findings Related to the Financial Statements**

None Noted

**C. Section III - Findings and Questioned Costs Related to the Federal Awards**

None Noted

**ABERNATHY INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011**

Prior Year's Findings/Noncompliance

N/A

Status of Prior Year's Findings/Noncompliance

N/A

ABERNATHY INDEPENDENT SCHOOL DISTRICT

Exhibit K-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011

Federal Grantor/ Pass-through Grantor/Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>			
<u>Passed Through Texas Education Agency</u>			
ESEA Title I, Part A - Improving Basic Programs*	84.010A	11610101095901	\$ 148,919
ESEA Title I, Part A - Improving Basic Programs - ARRA*	84.389A	11551001095901	15,137
			<u>164,056</u>
ESEA Title I, Part C - Migrant	84.011	11615001095901	\$ 55,312
ESEA Title II, Part A - Teacher & Principal Training	84.367A	11694501095901	\$ 43,064
ESEA Title II, Part D - Enhancing Education thru Technology - ARRA	84.386A	11553001095901	\$ 749
State Fiscal Stabilization Fund - ARRA	84.394A	11557001095901	\$ 651,575
TOTAL U.S. DEPARTMENT OF EDUCATION			\$ <u>914,756</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
<u>Passed Through Texas Education Agency</u>			
National School Lunch Program*	10.555	N/A	\$ 150,999
School Breakfast Program*	10.553	N/A	47,100
Food Distribution	10.550	N/A	14,771
TOTAL U.S. DEPARTMENT OF AGRICULTURE			\$ <u>212,870</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>1,127,626</u>

\*Clustered programs are required by Compliance Supplement.

**ABERNATHY INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Basis of Presentation

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

## **OTHER TEA REQUIRED SCHEDULES**

**ABERNATHY INDEPENDENT SCHOOL DISTRICT**

**Exhibit L-1**

**SCHOOLS FIRST QUESTIONNAIRE**

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	Were there any disclosures 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.	\$ 315,239

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**CERTIFIED PUBLIC ACCOUNTANTS**

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**LUBBOCK, TEXAS 79423-1954**

October 21, 2011

Board of School Trustees  
Abernathy Independent School District  
Abernathy, Texas

We have audited the financial statements of Abernathy Independent School District (the District) for the year ended June 30, 2011, and have issued our report thereon dated October 21, 2011. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated December 7, 2010, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our responsibility is to plan and perform the audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement. As part of our audit, we considered the internal control of Abernathy Independent School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control. We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures specifically to identify such matters. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter and meetings about planning matters.

Significant Audit Findings

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by Abernathy Independent School District are described in the notes to the financial statements. Adopted new policy for *Governmental Accounting Standards Board Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions*.

We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus.

There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate(s) affecting the financial statements was depreciation. Management's estimate of the depreciation is based on industry accepted guidelines. We evaluated the key factors and assumptions used to develop the accumulated depreciation and depreciation expense at the government-wide level in determining that it is reasonable in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 21, 2011.

#### Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Board of School Trustees and management of Abernathy Independent School District and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Balinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants