

TERRELL INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2011

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Introductory Section

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Terrell Independent School District
Annual Financial Report
For The Year Ended August 31, 2011

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CERTIFICATE OF BOARD

Terrell Independent School District
Name of School District

Kaufman
County

129-906
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 August 31, 2011, at a meeting of the board of trustees of such school district on the ____ day of _____, _____.

Signature of Board Secretary

Signature of Board President

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

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Financial Section

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**MICHAEL W. BEDFORD
205 WEST HIGH STREET
TERRELL, TEXAS 75160**

Independent Auditor's Report on Financial Statements

Board of Trustees
Terrell Independent School District
700 North Catherine
Terrell Texas, Texas 75160

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Terrell Independent School District as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Terrell Independent School District's management. 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Terrell Independent School District as of August 31, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2012, on our consideration of Terrell Independent School District's internal control over financial reporting and on 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.

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

limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Terrell Independent School District's financial statements as a whole. The individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the financial statements. The individual nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Respectfully submitted,

A handwritten signature in cursive script that reads "Michael W. Bedford".

Michael W. Bedford, CPA

January 27, 2012

**TERRELL INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2011
(UNAUDITED)**

This section of Terrell Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2011. Please read this narrative in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of Terrell Independent School District exceeded its liabilities as of August 31, 2011 by \$18,207,148 (net assets).
- The District's total government-wide net assets decreased by \$573,358.
- At the close of the current fiscal period, the District's governmental funds reported combined ending fund balances of \$12,675,838.
- The general fund reported a fund balance of \$10,761,635, an increase of \$578,691 over the prior fiscal year. \$1,439,939 of this reported fund balance is unexpended Maintenance Tax Note proceeds which will be spent in the 2011-12 school year. Excluding the unspent Maintenance Tax Note proceeds, the fund balance of the general fund would have decreased by \$861,248.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Government-Wide Statements

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

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

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

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

Fund Financial Statements

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

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

The District has the following kinds of funds:

Governmental funds—Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

- We use *internal service funds* to report self-insurance and print shop activities for the District.
- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Our analysis presents both current and prior year data and focuses on the net assets (Table I) and changes in net assets (Table II) of the District's governmental activities.

Net assets of the District's governmental activities decreased from \$18,780,506 to \$18,207,148. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operation without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$12,827,514 at August 31, 2011.

Table I
Terrell Independent School District
NET ASSETS

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
Current and other assets	19,382,712	18,461,517
Capital assets	53,144,560	53,190,626
Total assets	<u>72,527,272</u>	<u>71,652,143</u>
Long-term liabilities	46,173,822	45,967,386
Other liabilities	8,146,302	6,904,252
Total liabilities	<u>54,320,124</u>	<u>52,871,638</u>
Net Assets:		
Invested in capital assets net of related debt	3,696,168	4,532,833
Restricted	1,683,466	2,423,172
Unrestricted	12,827,514	11,824,501
Total net assets	<u>18,207,148</u>	<u>18,780,506</u>

Changes in Net Assets

The District's total revenues were \$41,390,670. A significant portion, 42.7% of the District's revenue comes from taxes, while 31.4% comes from state aid-grants and contributions. The total cost of all programs and services was \$41,964,028; 53.6% of these costs are instruction, and instructional resources and media services.

Table II
Terrell Independent School District
CHANGES IN NET ASSETS

	Governmental Activities	
	<u>2011</u>	<u>2010</u>
Program Revenues:		
Charges for Services	574,825	618,547
Operating Grants and Contributions	9,966,152	10,394,772
General Revenues:		
Property Taxes	17,671,328	18,636,469
State Aid – Grants and Contributions	13,000,511	12,583,073
Miscellaneous	177,854	96,434
	<u>41,390,670</u>	<u>42,329,295</u>
Expenses:		
Instruction	21,969,699	23,648,018
Instructional Resources and Media Services	518,283	598,705
Curriculum and Staff Development	610,443	690,771
Instructional Leadership	539,634	418,531
School Leadership	2,327,208	2,382,975
Guidance, Counseling and Evaluation Services	1,307,429	1,254,581
Social Work Services	258,714	246,330
Health Services	383,000	383,358
Student Transportation	1,472,526	1,557,559
Food Services	2,354,645	2,297,208
Extracurricular Activities	1,046,997	1,076,089
General Administration	1,612,757	1,287,171
Plant Maintenance And Operation	3,940,615	3,977,306
Security and Monitoring Services	318,727	297,901
Data Processing Services	415,535	463,596
Community Services	307,876	335,519
Interest on Long-term Debt	2,120,164	2,589,150
Bond Issuance Costs and Fees	247,351	36,041
Facilities Acquisition and Construction	0	3,882
Payments Related to Shared Services Arrangements	0	0
Other Intergovernmental Charges	212,425	243,628
Total Expenses	<u>41,964,028</u>	<u>43,788,319</u>
Net Assets-Beginning	18,780,506	20,239,529
Net Assets-Ending	18,207,148	18,780,506
Increase (Decrease) in Net Assets	<u>573,358</u>	<u>(1,459,023)</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of \$12,675,838, which is \$306,654 higher than last year's total of \$12,369,184. Included in this year's change in fund balance is an increase of \$578,691 in the District's General Fund due primarily to unspent loan proceeds of \$1,439,939.

Over the course of the year, the District revised its budget 7 times. With these adjustments, actual General Fund expenditures were \$2,553,274 below final budget amounts and revenues were \$283,417 above the final budget amounts.

CAPITAL ASSETS AND DEBT ADMINISTRATION

At the end of 2011, the District had \$86,972,576 invested in a broad range of capital assets, including land, equipment, and buildings. This amount represents a net increase (including additions and deductions) of \$2,191,742 above last year.

At year-end the District had \$49,540,990 in debt outstanding as compared to \$48,837,386 from the last fiscal year. On April 21, 2011, the District issued Maintenance Tax Notes, Series 2011, in the amount of \$2,170,000 to pay for repairs and renovations to the existing Career Tech facility. More detailed information about the District's debt is presented in the notes to the basic financial statements.

The District's bond rating presently is AAA.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Total revenues budgeted included 15% from federal sources, 39% from state sources, and 46% from local sources.
- Enrollment at the end of the first semester of 2011-12 increased by approximately 79 students from 4,097 in 2010-11 to 4,176 in 2011-12.
- The 2011 tax rate remained at \$1.31 (\$1.17 for Maintenance and Operations and \$.14 for Interest and Sinking).
- The 2011 total market value is \$2,056,888,413 compared to \$2,093,391,372 for 2010 which is a decrease of \$36,502,959. The 2011 certified taxable value is \$1,343,241,784 compared to \$1,356,818,535 for 2010 which is a decrease of \$13,576,751.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Office, Terrell Independent School District, 700 N. Catherine Street, Terrell, Texas 75160, (972) 563-7504.

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Basic Financial Statements

TERRELL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

AUGUST 31, 2011

Data Control Codes	1	Governmental Activities
ASSETS:		
1110	Cash and Cash Equivalents	\$ 6,579,164
1120	Current Investments	9,960,612
1225	Property Taxes Receivable (Net)	1,109,380
1240	Due from Other Governments	1,431,324
1290	Other Receivables (Net)	28,092
1300	Inventories	31,712
1410	Deferred Expenses	31,839
1420	Capitalized Bond and Other Debt Issuance Costs	210,589
Capital Assets:		
1510	Land	3,303,627
1520	Buildings and Improvements, Net	46,524,731
1530	Furniture and Equipment, Net	1,494,223
1580	Construction in Progress	1,821,979
1000	Total Assets	<u>72,527,272</u>
LIABILITIES:		
2110	Accounts Payable	251,663
2140	Interest Payable	85,159
2165	Accrued Liabilities	1,734,476
2180	Due to Other Governments	1,837
2300	Unearned Revenue	2,673,167
Noncurrent Liabilities:		
2501	Due Within One Year	3,400,000
2502	Due in More Than One Year	46,173,822
2000	Total Liabilities	<u>54,320,124</u>
NET ASSETS		
3200	Invested in Capital Assets, Net of Related Debt	3,696,168
Restricted For:		
3850	Debt Service	1,581,340
3860	Capital Projects	718
3870	Campus Activities	57,013
	Other Purposes	
3890	Nonexpendable	44,395
3900	Unrestricted	12,827,514
3000	Total Net Assets	<u>\$ 18,207,148</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
			Charges for Services	Governmental Activities		
	Governmental Activities:					
11	Instruction	\$ 21,969,699	\$ 10,421	\$ 6,533,797	\$ (15,425,481)	
12	Instructional Resources and Media Services	518,283	--	19,391	(498,892)	
13	Curriculum and Staff Development	610,443	502	118,040	(491,901)	
21	Instructional Leadership	539,634	--	66,861	(472,773)	
23	School Leadership	2,327,208	4,479	196,813	(2,125,916)	
31	Guidance, Counseling, & Evaluation Services	1,307,429	--	516,153	(791,276)	
32	Social Work Services	258,714	--	81,833	(176,881)	
33	Health Services	383,000	--	103,501	(279,499)	
34	Student Transportation	1,472,526	--	28,300	(1,444,226)	
35	Food Service	2,354,645	394,050	1,823,737	(136,858)	
36	Cocurricular/Extracurricular Activities	1,046,997	123,046	45,575	(878,376)	
41	General Administration	1,612,757	--	165,657	(1,447,100)	
51	Plant Maintenance and Operations	3,940,615	42,327	105,454	(3,792,834)	
52	Security and Monitoring Services	318,727	--	15,917	(302,810)	
53	Data Processing Services	415,535	--	11,558	(403,977)	
61	Community Services	307,876	--	81,377	(226,499)	
72	Interest on Long-term Debt	2,120,164	--	--	(2,120,164)	
73	Bond Issuance Costs and Fees	247,351	--	--	(247,351)	
81	Capital Outlay	--	--	52,188	52,188	
99	Other Intergovernmental Charges	212,425	--	--	(212,425)	
TG	Total Governmental Activities	<u>41,964,028</u>	<u>574,825</u>	<u>9,966,152</u>	<u>(31,423,051)</u>	
TP	Total Primary Government	<u>\$ 41,964,028</u>	<u>\$ 574,825</u>	<u>\$ 9,966,152</u>	<u>(31,423,051)</u>	
	General Revenues:					
MT	Property Taxes, Levied for General Purposes				15,739,851	
DT	Property Taxes, Levied for Debt Service				1,931,477	
IE	Investment Earnings				47,897	
GC	Grants and Contributions Not Restricted to Specific Programs				13,000,511	
MI	Miscellaneous				129,957	
TR	Total General Revenues				<u>30,849,693</u>	
CN	Change in Net Assets				(573,358)	
NB	Net Assets - Beginning				18,780,506	
NE	Net Assets - Ending				<u>\$ 18,207,148</u>	

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2011

Data Control Codes	10 General Fund	50 Debt Service	Other Governmental Funds	98 Total Governmental Funds	
ASSETS:					
1110	Cash and Cash Equivalents	\$ 5,394,908	\$ 1,102,617	\$ (139,400)	\$ 6,358,125
1120	Current Investments	7,796,889	1,487,205	44,395	9,328,489
1225	Taxes Receivable, Net	934,848	174,532	--	1,109,380
1240	Due from Other Governments	694,571	3,567	733,186	1,431,324
1260	Due from Other Funds	1,023,450	--	--	1,023,450
1290	Other Receivables	24,788	--	6	24,794
1300	Inventories	31,712	--	--	31,712
1410	Deferred Expenditures	31,839	--	--	31,839
1000	Total Assets	<u>\$ 15,933,005</u>	<u>\$ 2,767,921</u>	<u>\$ 638,187</u>	<u>\$ 19,339,113</u>
LIABILITIES:					
Current Liabilities:					
2110	Accounts Payable	\$ 251,663	\$ --	\$ --	\$ 251,663
2160	Accrued Wages Payable	1,030,302	--	38,636	1,068,938
2170	Due to Other Funds	136,139	1,022,707	744	1,159,590
2180	Due to Other Governments	1,837	--	--	1,837
2200	Accrued Expenditures	371,434	--	27,266	398,700
2300	Deferred Revenue	3,379,995	338,406	64,146	3,782,547
2000	Total Liabilities	<u>5,171,370</u>	<u>1,361,113</u>	<u>130,792</u>	<u>6,663,275</u>
FUND BALANCES:					
Nonspendable Fund Balances:					
3410	Inventories	31,712	--	--	31,712
3430	Prepaid Items	31,839	--	--	31,839
Restricted Fund Balances:					
3450	Federal/State Funds Grant Restrictions	--	--	405,269	405,269
3480	Retirement of Long-Term Debt	--	1,406,808	--	1,406,808
3490	Other Restrictions of Fund Balance	--	--	45,737	45,737
Committed Fund Balances:					
3510	Construction	1,113,938	--	--	1,113,938
3525	Retirement of Loans/Notes Payable	2,350,875	--	--	2,350,875
3530	Capital Expenditures for Equipment	86,293	--	--	86,293
3545	Other Committed Fund Balance	160,765	--	56,389	217,154
3600	Unassigned	6,986,213	--	--	6,986,213
3000	Total Fund Balances	<u>10,761,635</u>	<u>1,406,808</u>	<u>507,395</u>	<u>12,675,838</u>
4000	Total Liabilities and Fund Balances	<u>\$ 15,933,005</u>	<u>\$ 2,767,921</u>	<u>\$ 638,187</u>	<u>\$ 19,339,113</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT
*RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 AUGUST 31, 2011*

Total fund balances - governmental funds balance sheet	\$ 12,675,838
Amounts reported for governmental activities in the Statement of Net Assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	53,124,505
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	1,109,380
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	745,816
Payables for bond principal which are not due in the current period are not reported in the funds.	(34,891,608)
Payables for bond interest which are not due in the current period are not reported in the funds.	(12,564,541)
Payables for notes which are not due in the current period are not reported in the funds.	(2,202,832)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	210,589
Rounding difference	<u>1</u>
Net assets of governmental activities - Statement of Net Assets	<u>\$ 18,207,148</u>

The accompanying notes are an integral part of this statement.

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

Data Control Codes	10	50	Other	98
	General Fund	Debt Service	Governmental Funds	Total Governmental Funds
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ 16,130,852	\$ 1,998,418	\$ 487,825	\$ 18,617,095
5800 <i>State Program Revenues</i>	14,138,761	--	481,200	14,619,961
5900 <i>Federal Program Revenues</i>	540,689	--	7,748,300	8,288,989
5020 Total Revenues	<u>30,810,302</u>	<u>1,998,418</u>	<u>8,717,325</u>	<u>41,526,045</u>
EXPENDITURES:				
Current:				
0011 <i>Instruction</i>	14,760,274	--	5,885,546	20,645,820
0012 <i>Instructional Resources and Media Services</i>	469,268	--	--	469,268
0013 <i>Curriculum and Staff Development</i>	499,890	--	102,730	602,620
0021 <i>Instructional Leadership</i>	493,752	--	44,826	538,578
0023 <i>School Leadership</i>	2,211,401	--	91,196	2,302,597
0031 <i>Guidance, Counseling, & Evaluation Services</i>	1,262,075	--	30,202	1,292,277
0032 <i>Social Work Services</i>	184,628	--	73,167	257,795
0033 <i>Health Services</i>	274,749	--	90,121	364,870
0034 <i>Student Transportation</i>	1,437,988	--	28,300	1,466,288
0035 <i>Food Service</i>	13,594	--	2,175,676	2,189,270
0036 <i>Cocurricular/Extracurricular Activities</i>	877,835	--	20,585	898,420
0041 <i>General Administration</i>	1,561,275	--	1,300	1,562,575
0051 <i>Plant Maintenance and Operations</i>	3,875,015	--	20,540	3,895,555
0052 <i>Security and Monitoring Services</i>	322,551	--	921	323,472
0053 <i>Data Processing Services</i>	461,027	--	--	461,027
0061 <i>Community Services</i>	215,561	--	69,889	285,450
0071 <i>Principal on Long-term Debt</i>	--	2,870,000	--	2,870,000
0072 <i>Interest on Long-term Debt</i>	--	863,843	--	863,843
0073 <i>Bond Issuance Costs and Fees</i>	47,500	1,750	--	49,250
0081 <i>Capital Outlay</i>	1,821,980	--	52,188	1,874,168
0099 <i>Other Intergovernmental Charges</i>	212,425	--	--	212,425
6030 Total Expenditures	<u>31,002,788</u>	<u>3,735,593</u>	<u>8,687,187</u>	<u>43,425,568</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	<u>(192,486)</u>	<u>(1,737,175)</u>	<u>30,138</u>	<u>(1,899,523)</u>
Other Financing Sources and (Uses):				
7914 <i>Non-Current Loan Proceeds</i>	2,170,000	--	--	2,170,000
7915 <i>Transfers In</i>	1,243,552	1,435,000	--	2,678,552
7916 <i>Premium or Discount on Issuance of Bonds</i>	32,832	--	--	32,832
7917 <i>Prepaid Interest</i>	3,345	--	--	3,345
8911 <i>Transfers Out</i>	(2,678,552)	--	--	(2,678,552)
7080 Total Other Financing Sources and (Uses)	<u>771,177</u>	<u>1,435,000</u>	<u>--</u>	<u>2,206,177</u>
1200 Net Change in Fund Balances	<u>578,691</u>	<u>(302,175)</u>	<u>30,138</u>	<u>306,654</u>
0100 Fund Balances - Beginning	<u>10,182,944</u>	<u>1,708,983</u>	<u>477,257</u>	<u>12,369,184</u>
3000 Fund Balances - Ending	<u>\$ 10,761,635</u>	<u>\$ 1,406,808</u>	<u>\$ 507,395</u>	<u>\$ 12,675,838</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2011

Net change in fund balances - total governmental funds	\$ 306,654
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	2,185,571
The depreciation of capital assets used in governmental activities is not reported in the funds.	(2,257,842)
Donations of capital assets increase net assets in the SOA but not in the funds.	33,000
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(168,375)
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	354,306
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	47,000
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	2,870,000
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(245,101)
The accretion of interest on capital appreciation bonds is not reported in the funds.	(1,571,152)
(Increase) decrease in accrued interest from beginning of period to end of period.	(39,475)
The net revenue (expense) of internal service funds is reported with governmental activities.	118,236
Proceeds of notes do not provide revenue in the SOA, but are reported as current resources in the funds.	(2,206,177)
Rounding difference	(3)
Change in net assets of governmental activities - Statement of Activities	\$ <u>(573,358)</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

INTERNAL SERVICE FUNDS

AUGUST 31, 2011

Data Control Codes		Internal Service Funds
	ASSETS:	
	Current Assets:	
1110	Cash and Cash Equivalents	\$ 221,039
1120	Investments	632,123
	Receivables:	
1260	Due from Other Funds	136,139
1290	Other Receivables (net)	3,298
	Total Current Assets	<u>992,599</u>
	Noncurrent Assets:	
	Capital Assets:	
1530	Furniture and Equipment	87,395
1570	Accumulated Depreciation	<u>(67,340)</u>
	Total Noncurrent Assets	20,055
1000	Total Assets	<u>\$ 1,012,654</u>
	LIABILITIES:	
	Current Liabilities:	
2200	Accrued Expenditures/Expenses	\$ 266,838
	Total Current Liabilities	<u>266,838</u>
2000	Total Liabilities	<u>266,838</u>
	NET ASSETS:	
3900	Unrestricted Net Assets	745,816
3000	Total Net Assets	<u>\$ 745,816</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
 IN FUND NET ASSETS - INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2011

Data Control Codes		Internal Service Funds
	OPERATING REVENUES:	
5700	<i>Local and Intermediate Sources</i>	\$ 400,864
5020	Total Revenues	<u>400,864</u>
	OPERATING EXPENSES:	
6100	<i>Payroll Costs</i>	53,602
6200	<i>Professional and Contracted Services</i>	166,824
6300	<i>Supplies and Materials</i>	50,010
6400	<i>Other Operating Costs</i>	13,422
6030	Total Expenses	<u>283,858</u>
	Operating Income (Loss)	<u>117,006</u>
	NON-OPERATING REVENUES (EXPENSES):	
7955	<i>Earnings from Temp. Deposits and Investments</i>	1,229
8030	Total Non-operating Revenues (Expenses)	<u>1,229</u>
1300	Change in Net Assets	118,235
0100	Total Net Assets - Beginning	627,581
3300	Total Net Assets - Ending	<u>\$ 745,816</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2011

	<u>Internal Service Funds</u>
Cash Flows from Operating Activities:	
<i>Cash Received from Customers</i>	\$ 80,892
<i>Cash Receipts (Payments) for Quasi-external Operating Transactions with Other Funds</i>	202,475
<i>Cash Payments to Employees for Services</i>	(53,603)
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(370,817)
Net Cash Provided (Used) by Operating Activities	<u>(141,053)</u>
Cash Flows from Non-capital Financing Activities:	
<i>Transfers From (To) Other Funds</i>	--
Net Cash Provided (Used) by Non-capital Financing Activities	<u>--</u>
Cash Flows from Investing Activities:	
<i>Interest and Dividends on Investments</i>	1,230
Net Cash Provided (Used) for Investing Activities	<u>1,230</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(139,824)
Cash and Cash Equivalents at Beginning of Year	992,986
Cash and Cash Equivalents at End of Year	<u>\$ 853,162</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 117,006
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
<i>Depreciation</i>	6,794
<i>Provision for Uncollectible Accounts</i>	--
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	(116,990)
<i>Increase (Decrease) in Accrued Expenses</i>	(147,863)
Total Adjustments	<u>(258,059)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (141,053)</u>

The accompanying notes are an integral part of this statement.

TERRELL INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

AUGUST 31, 2011

Data Control Codes		Agency Fund
		Student Activity
	ASSETS:	
1110	Cash and Cash Equivalents	\$ 124,248
1000	Total Assets	<u>\$ 124,248</u>
	LIABILITIES:	
	Current Liabilities:	
2110	Accounts Payable	\$ 2,290
2190	Due to Student Groups	120,932
2200	Accrued Expenditures/Expenses	1,026
2000	Total Liabilities	<u>124,248</u>
	NET ASSETS	
3000	Total Net Assets	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

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TERRELL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2011

A. Summary of Significant Accounting Policies

The basic financial statements of Terrell Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity," as revised by GASB Statement No.39, and there are no component units included within the reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Debt Service Fund: This is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund. Any unused

TERRELL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2011

debt service fund balances are transferred to the General Fund after all of the related debt obligations have been paid.

In addition, the District reports the following fund types:

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. **Measurement Focus, Basis of Accounting**

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen not to apply future FASB standards.

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

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property 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. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property 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.

c. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50
Building Improvements	7 - 20
Vehicles	8 - 15
Furniture and equipment	7 - 20

e. Receivable and Payable Balances

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

There are no significant receivables which are not scheduled for collection within one year of year end.

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are

TERRELL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2011

reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

g. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

h. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to insure accuracy in building a statewide database for policy development and funding plans.

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred 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.

Other committed fund balance at August 31, 2011 consisted of \$84,469 for Technology expenditures and

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

\$76,296 for career tech facility furniture and equipment.

B. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2011, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$6,579,166 and the bank balance was \$7,968,384. The District's cash deposits at August 31, 2011 and during the year ended August 31, 2011, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, 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.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

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

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
TexPool	N/A	\$ 7,566,017
Lone Star Investment Pool	N/A	2,394,595
Total Investments		<u>\$ 9,960,612</u>

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

At August 31, 2011, the District's investments, other than those which are obligations of or guaranteed by

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

the U. S. Government, are rated as to credit quality as follows:

TexPool - AAA by Standard and Poor's
LoneStar Pool - AAA by Standard and Poor's

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "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 investments 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 ("SEC") 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.

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

C. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 3,270,627	\$ 33,000	\$ --	\$ 3,303,627
Construction in progress	--	1,821,979	--	1,821,979
Total capital assets not being depreciated	<u>3,270,627</u>	<u>1,854,979</u>	<u>--</u>	<u>5,125,606</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	78,216,050	--	--	78,216,050
Equipment	2,288,706	340,925	--	2,629,631
Vehicles	1,005,451	22,667	26,829	1,001,289
Total capital assets being depreciated	<u>81,510,207</u>	<u>363,592</u>	<u>26,829</u>	<u>81,846,970</u>
Less accumulated depreciation for:				
Buildings and improvements	(29,671,598)	(2,019,721)	--	(31,691,319)
Equipment	(1,324,539)	(204,069)	--	(1,528,608)
Vehicles	(594,070)	(35,675)	(21,656)	(608,089)
Total accumulated depreciation	<u>(31,590,207)</u>	<u>(2,259,465)</u>	<u>(21,656)</u>	<u>(33,828,016)</u>
Total capital assets being depreciated, net	<u>49,920,000</u>	<u>(1,895,873)</u>	<u>5,173</u>	<u>48,018,954</u>
Governmental activities capital assets, net	<u>\$ 53,190,627</u>	<u>\$ (40,894)</u>	<u>\$ 5,173</u>	<u>\$ 53,144,560</u>

Depreciation was charged to functions as follows:

Instruction	\$ 1,639,379
Instructional Resources and Media Services	49,015
Curriculum and Staff Development	7,823
Instructional Leadership	1,056
School Leadership	24,611
Guidance, Counseling, & Evaluation Services	15,152
Social Work Services	919
Health Services	18,130
Student Transportation	6,238
Food Services	165,375
Extracurricular Activities	161,487
General Administration	50,182
Plant Maintenance and Operations	72,168
Security and Monitoring Services	17,922
Data Processing Services	7,582
Community Services	22,426
	<u>\$ 2,259,465</u>

D. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2011, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Food Service Fund	\$ 744	Short-term amount
General Fund	Debt Service Fund	1,022,707	Short-term amount
Internal Service Fund	General Fund	136,139	Short-term amount
	Total	<u>\$ 1,159,590</u>	

All amounts due are scheduled to be repaid within one year.

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

2. Transfers To and From Other Funds

Transfers to and from other funds at August 31, 2011, consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	General fund - Athletics Fund	\$ 140,310	Provide resources for excess expenditures over revenue
General fund	General fund - CTE Construction	1,103,242	Provide resources for improvemer to Career Tech Facility
General fund	Debt service fund	1,435,000	Provide resources for excess expenditures over revenue
	Total	<u>\$ 2,678,552</u>	

E. Long-Term Obligations

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2011, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 37,373,448	\$ --	\$ 2,870,000	\$ 34,503,448	\$ 2,995,000
Accreted interest payable	10,908,230	1,571,152	--	12,479,382	--
Deferred amounts refunding	(619,422)	--	186,758	(432,664)	--
Unamortized premium	1,175,130	--	354,306	820,824	--
Notes	--	2,170,000	--	2,170,000	405,000
Total governmental activities	<u>\$ 48,837,386</u>	<u>\$ 3,741,152</u>	<u>\$ 3,411,064</u>	<u>\$ 49,540,990</u>	<u>\$ 3,400,000</u>

2. Debt Service Requirements

Bonds Payable

Debt service requirements on long-term debt at August 31, 2011, are as follows:

Description	Interest Rates	Original Amount	Outstanding Balance
Unlimited Tax School Building and Refunding Bonds, Series 2001	4.625% - 5.76%	\$ 39,078,681	\$ 16,988,448
Unlimited Tax School Building Bonds, Series 2002	4.50% - 6.50%	6,950,000	5,985,000
Unlimited Tax Refunding Bonds, Series 2010	3% - 4%	12,135,000	11,530,000
Totals			<u>\$ 34,503,448</u>

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

Debt service requirements for bonded debt as of August 31, 2011, are as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,995,000	\$ 771,038	\$ 3,766,038
2013	3,115,000	646,168	3,761,168
2014	3,260,000	515,443	3,775,443
2015	3,395,000	381,043	3,776,043
2016	1,782,350	2,195,587	3,977,937
2017-2021	7,791,898	12,110,289	19,902,187
2022-2026	6,464,799	13,487,064	19,951,863
2027-2031	5,699,401	14,304,111	20,003,512
Totals	\$ <u>34,503,448</u>	\$ <u>44,410,743</u>	\$ <u>78,914,191</u>

Loans Payable

As of August 31, 2011, the District's loan payable balance totaled \$2,170,000. Series 2011, Maintenance Tax Notes were executed as of April 1, 2011, for making various repairs and renovations to existing District facilities and paying the costs of issuance on the Notes. The following represents the annual payments due:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Interest Rate</u>
2012	\$ 405,000	\$ 66,900	\$ 471,900	2.00%
2013	430,000	42,075	472,075	2.00%
2014	435,000	33,475	468,475	2.00%
2015	445,000	24,775	469,775	2.50%
2016	455,000	13,650	468,650	3.00%
Totals	\$ <u>2,170,000</u>	\$ <u>180,875</u>	\$ <u>2,350,875</u>	

F. Commitments Under Noncapitalized Leases

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

<u>Year Ending August 31,</u>	
2012	\$ 72,407
2013	26,647
2014	15,679
2015	6,274
2016	1,332
Total Minimum Rentals	\$ <u>122,339</u>
Rental Expenditures in 2011	\$ <u>163,764</u>

G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2011, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

The District participates in a partially self-funded workers' compensation pool administered by Claims Administrative Services, Inc. The District pays a contribution for the fund year to cover the servicing of programs administration, claims handling, loss control, and stop loss coverage. Provided the District remains in the pool, there are no additional fees for services. The agreement for formation of the Plan provides that the Plan will be self-sustaining through member premiums and will reinsure through commercial companies for excessive claims.

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

H. Pension Plan

1. Plan Description

The District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. 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 downloading the report from the TRS internet website, www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

2. Funding Policy

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2011, 2010, and 2009, and a state contribution rate of 6.644% for fiscal years 2011-2010 and 6.58% for fiscal year 2009. In certain instances the reporting district is required to make all or a portion of the state's 6.644% contribution, limited to 6.4% for the period of September through December 2009 and increased to 6.644% for the period of January 2010 through August 2011. State contributions to TRS made on behalf of the District's employees for the years ending August 31, 2011, 2010 and 2009 were \$1,138,250, \$1,258,960 and \$1,306,371, respectively. The District paid additional state contributions for the years ending August 31, 2011, 2010 and 2009 in the amount of \$270,241, \$248,782 and \$261,890, respectively, on portion of the employees' salaries that exceeded the statutory minimum.

I. Retiree Health Care Plan

1. Plan Description

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

2. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee

TERRELL INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2011

contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2011, 2010 and 2009. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2011, 2010, and 2009, the State's contributions to TRS-Care were \$239,443, \$248,516, and \$244,500, respectively, the active member contributions were \$155,638, \$161,536, and \$158,925, respectively, and the District's contributions were \$131,694, \$136,684, and \$134,475, respectively, which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2011, 2010, and 2009, the subsidy payments received by TRS-Care on behalf of the District were \$55,678, \$61,934, and \$54,463, respectively.

J. Employee Health Care Coverage

During the year ended August 31, 2011, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$248 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents.

K. Commitments and Contingencies

1. Contingencies

The District participates in 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 collectibility 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 basic financial statements for such contingencies.

2. Litigation

From time to time, the District is a defendant in legal proceedings relating to its operations as a school district. In the best judgement of the District's management, the outcome of any present legal proceedings will not have any adverse material effect on the accompanying financial statements.

L. Shared Services Arrangements

Shared Services Arrangement - Membership

The District participates in a shared services arrangement ("SSA") for certain federal programs with the following entity:

Member Districts
Region 10 ESC

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Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

TERRELL INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2011

EXHIBIT G-1

Page 1 of 2

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	1	2	3		
	Original	Final	Actual		
REVENUES:					
5700	Local and Intermediate Sources	\$ 15,690,800	\$ 16,043,733	\$ 16,130,852	\$ 87,119
5800	State Program Revenues	14,070,560	13,946,512	14,138,761	192,249
5900	Federal Program Revenues	167,640	536,640	540,689	4,049
5020	Total Revenues	<u>29,929,000</u>	<u>30,526,885</u>	<u>30,810,302</u>	<u>283,417</u>
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	15,111,091	15,533,708	14,760,274	773,434
0012	Instructional Resources and Media Services	474,400	480,400	469,268	11,132
0013	Curriculum and Staff Development	463,016	510,016	499,890	10,126
	Total Instruction & Instr. Related Services	<u>16,048,507</u>	<u>16,524,124</u>	<u>15,729,432</u>	<u>794,692</u>
Instructional and School Leadership:					
0021	Instructional Leadership	489,362	503,362	493,752	9,610
0023	School Leadership	2,250,666	2,250,666	2,211,401	39,265
	Total Instructional & School Leadership	<u>2,740,028</u>	<u>2,754,028</u>	<u>2,705,153</u>	<u>48,875</u>
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	1,305,744	1,305,744	1,262,075	43,669
0032	Social Work Services	186,007	190,007	184,628	5,379
0033	Health Services	289,891	295,891	274,749	21,142
0034	Student (Pupil) Transportation	1,511,500	1,511,500	1,437,988	73,512
0035	Food Services	13,722	13,722	13,594	128
0036	Cocurricular/Extracurricular Activities	911,391	951,092	877,835	73,257
	Total Support Services - Student (Pupil)	<u>4,218,255</u>	<u>4,267,956</u>	<u>4,050,869</u>	<u>217,087</u>
Administrative Support Services:					
0041	General Administration	1,276,685	1,588,151	1,561,275	26,876
	Total Administrative Support Services	<u>1,276,685</u>	<u>1,588,151</u>	<u>1,561,275</u>	<u>26,876</u>
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	3,772,602	3,967,781	3,875,015	92,766
0052	Security and Monitoring Services	299,413	331,000	322,551	8,449
0053	Data Processing Services	413,866	495,000	461,027	33,973
	Total Support Services - Nonstudent Based	<u>4,485,881</u>	<u>4,793,781</u>	<u>4,658,593</u>	<u>135,188</u>
Ancillary Services:					
0061	Community Services	238,142	238,142	215,561	22,581
	Total Ancillary Services	<u>238,142</u>	<u>238,142</u>	<u>215,561</u>	<u>22,581</u>
Debt Service:					
0071	Principal on Long-Term Debt	3,500	3,500	--	3,500
0072	Interest on Long-Term Debt	400	400	--	400
0073	Bond Issuance Costs and Fees	--	47,500	47,500	--
	Total Debt Service	<u>3,900</u>	<u>51,400</u>	<u>47,500</u>	<u>3,900</u>
Capital Outlay:					
0081	Capital Outlay	--	3,099,878	1,821,980	1,277,898
	Total Capital Outlay	<u>--</u>	<u>3,099,878</u>	<u>1,821,980</u>	<u>1,277,898</u>
0099	Other Intergovernmental Charges	238,602	238,602	212,425	26,177

TERRELL INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2011

EXHIBIT G-1

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	Total Intergovernmental Charges	<u>238,602</u>	<u>238,602</u>	<u>212,425</u>	<u>26,177</u>
6030	Total Expenditures	<u>29,250,000</u>	<u>33,556,062</u>	<u>31,002,788</u>	<u>2,553,274</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>679,000</u>	<u>(3,029,177)</u>	<u>(192,486)</u>	<u>2,836,691</u>
	Other Financing Sources (Uses):				
7914	Non-Current Loan Proceeds	--	2,170,000	2,170,000	--
7915	Transfers In	150,000	1,263,938	1,243,552	(20,386)
7916	Premium or Discount on Issuance of Bonds	--	32,832	32,832	--
7917	Prepaid Interest	--	3,345	3,345	--
8911	Transfers Out	(1,585,000)	(2,698,938)	(2,678,552)	20,386
7080	Total Other Financing Sources and (Uses)	<u>(1,435,000)</u>	<u>771,177</u>	<u>771,177</u>	<u>--</u>
1200	Net Change in Fund Balance	<u>(756,000)</u>	<u>(2,258,000)</u>	<u>578,691</u>	<u>2,836,691</u>
0100	Fund Balance - Beginning	10,182,944	10,182,944	10,182,944	--
3000	Fund Balance - Ending	<u>\$ 9,426,944</u>	<u>\$ 7,924,944</u>	<u>\$ 10,761,635</u>	<u>\$ 2,836,691</u>

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Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

TERRELL INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

FOR THE YEAR ENDED AUGUST 31, 2011

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
	\$	Various	\$	Various	\$	Various
2002 and Prior Years	\$	Various	\$	Various	\$	Various
2003		1.45		.225		889,162,746
2004		1.50		.21		1,009,470,313
2005		1.50		.24		1,013,087,208
2006		1.50		.27		1,169,247,214
2007		1.37		.27		1,252,861,768
2008		1.04		.27		1,328,206,183
2009		1.04		.27		1,447,901,221
2010		1.04		.27		1,406,918,626
2011 (School Year Under Audit)		1.17		.14		1,323,383,511

1000 Totals

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

10 Beginning Balance 9/1/10	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/11
\$ 159,194	\$ --	\$ 628	\$ 64	\$ (1,866)	\$ 156,636
57,011	--	1,147	178	(4,877)	50,809
75,528	--	1,516	212	(5,365)	68,435
110,652	--	5,252	840	(5,881)	98,679
173,076	--	22,089	3,976	(4,639)	142,372
264,265	--	37,965	7,478	(8,456)	210,366
357,367	--	57,509	14,930	(80,726)	204,202
526,020	--	129,753	33,686	(92,645)	269,936
832,397	--	339,830	88,225	(4,684)	399,658
--	17,336,324	14,887,585	1,781,529	(49,542)	617,668
<u>\$ 2,555,510</u>	<u>\$ 17,336,324</u>	<u>\$ 15,483,274</u>	<u>\$ 1,931,118</u>	<u>\$ (258,681)</u>	<u>\$ 2,218,761</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

TERRELL 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 AUGUST 31, 2011

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

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
611X-6146	Payroll Costs	\$ --	\$ --	\$ 226,081	\$ 695,630	\$ --	\$ 43,223	\$ 964,934
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)	--	--	--	--	--	--	--
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)	--	--	--	--	--	--	--
6211	Legal Services	305,346	--	--	--	--	--	305,346
6212	Audit Services	--	--	--	21,185	--	--	21,185
6213	Tax Appraisal and Collection	--	224,156	--	--	--	--	224,156
621X	Other Prof. Services	--	--	--	--	--	--	--
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	1,500	--	2,000	145,141	--	--	148,641
6240	Contr. Maint. and Repair	--	--	--	--	4,630	--	4,630
6250	Utilities	--	--	--	--	--	--	--
6260	Rentals	--	--	--	19,139	--	--	19,139
6290	Miscellaneous Contr.	8,500	--	--	41,221	--	--	49,721
6310	Operational Supplies, Materials	--	--	--	1,038	--	--	1,038
6320	Textbooks and Reading	--	--	626	937	--	--	1,563
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	4,960	--	5,501	52,607	--	--	63,068
6410	Travel, Subsistence, Stipends	17,903	--	6,383	12,387	--	--	36,673
6420	Ins. and Bonding Costs	19,032	--	--	--	--	--	19,032
6430	Election Costs	13,325	--	--	--	--	--	13,325
6490	Miscellaneous Operating	9,244	--	5,441	28,704	--	450	43,839
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	24,166	24,166

Total \$ 379,810 \$ 224,156 \$ 246,032 \$ 1,017,989 \$ 4,630 \$ 67,839 \$ 1,940,456

Total Expenditures for General and Special Revenue Funds (9) \$ 39,689,975

LESS: Deductions of Unallowable Costs

	FISCAL YEAR		
Total Capital Outlay (6600)	(10)	\$	2,185,572
Total Debt & Lease (6500)	(11)	\$	47,500
Plant Maintenance (Function 51, 6100-6400)	(12)	\$	3,863,274
Food (Function 35, 6341 and 6499)	(13)	\$	850,472
Stipends (6413)	(14)	\$	--
Column 4 (above) - Total Indirect Cost		\$	1,017,989

Subtotal 7,964,807

Net Allowed Direct Cost \$ 31,725,168

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520)	(15)	\$	78,216,050
Historical Cost of Buildings over 50 years old	(16)		1,756,690
Amount of Federal Money in Building Cost (Net of #16)	(17)		468,092
Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540)	(18)		3,543,525
Historical Cost of Furniture & Equipment over 16 years old	(19)		895,902
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$	1,620,479

(8) Note A - \$165,456 in Function 53 expenditures and \$212,425 in Function 99 expenditures are included in this report on administrative costs.

TERRELL INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2011

EXHIBIT J-3

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 392,703	\$ 399,066	\$ 6,363
5800 <i>State Program Revenues</i>	13,073	13,073	--
5900 <i>Federal Program Revenues</i>	1,742,224	1,765,829	23,605
5020 Total Revenues	<u>2,148,000</u>	<u>2,177,968</u>	<u>29,968</u>
EXPENDITURES:			
Current:			
Support Services - Student (Pupil):			
0035 <i>Food Services</i>	2,175,000	2,164,302	10,698
Total Support Services - Student (Pupil)	<u>2,175,000</u>	<u>2,164,302</u>	<u>10,698</u>
6030 Total Expenditures	<u>2,175,000</u>	<u>2,164,302</u>	<u>10,698</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	(27,000)	13,666	40,666
1200 Net Change in Fund Balance	<u>(27,000)</u>	<u>13,666</u>	<u>40,666</u>
0100 Fund Balance - Beginning	343,385	343,385	--
3000 Fund Balance - Ending	<u>\$ 316,385</u>	<u>\$ 357,051</u>	<u>\$ 40,666</u>

TERRELL INDEPENDENT SCHOOL DISTRICT

DEBT SERVICE

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2011

EXHIBIT J-4

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 1,985,000	\$ 1,998,418	\$ 13,418
5020 Total Revenues	<u>1,985,000</u>	<u>1,998,418</u>	<u>13,418</u>
EXPENDITURES:			
Debt Service:			
0071 <i>Principal on Long-Term Debt</i>	2,870,000	2,870,000	--
0072 <i>Interest on Long-Term Debt</i>	897,132	863,843	33,289
0073 <i>Bond Issuance Costs and Fees</i>	2,868	1,750	1,118
Total Debt Service	<u>3,770,000</u>	<u>3,735,593</u>	<u>34,407</u>
6030 Total Expenditures	<u>3,770,000</u>	<u>3,735,593</u>	<u>34,407</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>(1,785,000)</u>	<u>(1,737,175)</u>	<u>47,825</u>
Other Financing Sources (Uses):			
7915 <i>Transfers In</i>	1,435,000	1,435,000	--
7080 Total Other Financing Sources and (Uses)	<u>1,435,000</u>	<u>1,435,000</u>	<u>--</u>
1200 Net Change in Fund Balance	<u>(350,000)</u>	<u>(302,175)</u>	<u>47,825</u>
0100 Fund Balance - Beginning	1,708,983	1,708,983	--
3000 Fund Balance - Ending	<u>\$ 1,358,983</u>	<u>\$ 1,406,808</u>	<u>\$ 47,825</u>

**MICHAEL W. BEDFORD
205 WEST HIGH STREET
TERRELL, TEXAS 75160**

Independent Auditor's Report

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Trustees
Terrell Independent School District
700 North Catherine
Terrell Texas, Texas 75160

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Terrell Independent School District as of and for the year ended August 31, 2011, which collectively comprise the Terrell Independent School District's basic financial statements and have issued our report thereon dated January 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Terrell 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 Terrell Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Terrell Independent School District's internal control over financial reporting.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Terrell 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 management, others within the entity, the Board

of Trustees, 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.

Respectfully submitted,

A handwritten signature in black ink that reads "Michael W. Bedford". The signature is written in a cursive style with a large, stylized initial "M".

Michael W. Bedford, CPA

January 27, 2012

**MICHAEL W. BEDFORD
205 WEST HIGH STREET
TERRELL, TEXAS 75160**

Independent Auditor's Report

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 Trustees
Terrell Independent School District
700 North Catherine
Terrell Texas, Texas 75160

Members of the Board of Trustees:

Compliance

We have audited Terrell 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 Terrell Independent School District's major federal programs for the year ended August 31, 2011. Terrell 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 Terrell Independent School District's management. Our responsibility is to express an opinion on Terrell 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 Terrell 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 of Terrell Independent School District's compliance with those requirements.

In our opinion, Terrell 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 August 31, 2011.

Internal Control Over Compliance

Management of Terrell Independent School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Terrell Independent School District's internal control over compliance with the 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 Terrell Independent School District's internal control over compliance.

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

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

This report is intended solely for the information and use of management, others within the entity, the Board of Trustees, 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.

Respectfully submitted,

A handwritten signature in cursive script that reads "Michael W. Bedford". The signature is written in black ink and is positioned above the printed name.

Michael W. Bedford, CPA

January 27, 2012

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

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more 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:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies 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>
84.027A	IDEA-B Formula
84.173A	IDEA-B Preschool
84.391A	ARRA-IDEA-Part B Formula
84.392A	ARRA-IDEA Part B, Preschool
84.394A	ARRA of 2009 Title XIV State Fiscal Stabilization Fund
10.553	School Breakfast Program
10.555	National School Lunch Program
10.555	Commodities
10.559	Summer Food Service Program

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

Auditee qualified as low-risk auditee? X Yes No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

TERRELL INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2011

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
Not applicable		

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

Not applicable

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

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Programs:			
<i>Head Start *</i>	93.600	06CH5583/45	\$ 731,083
<i>Head Start *</i>	93.600	06CH5583/46	225,908
<i>Head Start ARRA *</i>	93.708	06SE5583/01	3,094
Total Direct Programs			<u>960,085</u>
Total U. S. Department of Health and Human Services			<u>960,085</u>
U. S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
<i>ESEA Title I Part A - Improving Basic Programs *</i>	84.010A	11610101129906	1,143,179
<i>IDEA-B Formula *</i>	84.027A	116600011299066600	866,886
<i>Career and Technical - Basic Grant</i>	84.048A	11420006129906	63,506
<i>IDEA-B Preschool *</i>	84.173A	116610011299066610	22,478
<i>Summer School LEP</i>	84.369A	69551002	--
<i>ARRA - ESEA, Title I, Part A - Improving Basic Programs *</i>	84.389A	10551001129906	17,180
<i>ARRA - IDEA-Part B Formula *</i>	84.391A	10554001129906	413,480
<i>ARRA - IDEA Part B, Preschool *</i>	84.392A	10555001129906	21,961
<i>ARRA of 2009 Title XIV State Fiscal Stabilization Fund *</i>	84.394A	11557001129906	2,266,881
Total Passed Through State Department of Education			<u>4,815,551</u>
Passed Through Region 10 ESC:			
<i>ESEA Title IV Part A-Safe & Drug-Free Schools & Communities Act</i>	84.186A	11691001057950	1,396
<i>Title III Part A English Language Acquisition and Language Enhancement</i>	84.365A	116971001057950	82,919
<i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367A	11694501057950	214,234
Total Passed Through Region 10 ESC			<u>298,549</u>
Total U. S. Department of Education			<u>5,114,100</u>
U. S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education:			
School Breakfast Program *	10.553	129-906	393,916
National School Lunch Program *	10.555	129-906	1,232,701
National School Lunch Program (Non-cash) *	10.555	129-906	139,212
Total CFDA Number 10.555			<u>1,371,913</u>
Summer Food Service Program *	10.559	129-906	29,868
Total Passed Through State Department of Education			<u>1,795,697</u>
Total U. S. Department of Agriculture			<u>1,795,697</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 7,869,882</u></u>

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

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

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Terrell 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.

Head Start Program

The following is a detail of expenditures for the Head Start Grant No. H-5583 for the project period ended March 31, 2011, according to Head Start budget classifications.

	<u>Budget</u>	<u>Actual</u>
Personnel	\$ 742,340	\$ 706,206
Fringe benefits	144,959	118,762
Travel	--	3,176
Supplies	32,000	61,512
Contractual	22,000	13,100
Other	<u>12,661</u>	<u>51,204</u>
Totals	<u>\$ 953,960</u>	<u>\$ 953,960</u>

TERRELL INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2011

<u>Data Control Codes</u>	<u>Responses</u>
SF2 Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4 Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5 Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9 Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10 What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	\$ 12,479,382