

**ODEM-EDROY
INDEPENDENT
SCHOOL DISTRICT**

*Annual Financial Report
For the Year Ended August 31, 2011*

Gowland, Strealy, Morales & Company

A Professional Limited Liability Company

Certified Public Accountants

5934 S. Staples, Suite 201
Corpus Christi, Texas 78413

Odem-Edroy Independent School District
Annual Financial Report
For The Year Ended August 31, 2011

TABLE OF CONTENTS

| | <u>Page</u> | <u>Exhibit</u> |
|--|-------------|----------------|
| INTRODUCTORY SECTION | | |
| Certificate of Board..... | 1 | |
| FINANCIAL SECTION | | |
| Independent Auditor's Report on Financial Statements..... | 2 | |
| Management's Discussion and Analysis (Required Supplementary Information)..... | 4 | |
| <u>Basic Financial Statements</u> | | |
| Government-wide Financial Statements: | | |
| Statement of Net Assets..... | 10 | A-1 |
| Statement of Activities..... | 11 | B-1 |
| Fund Financial Statements: | | |
| Balance Sheet - Governmental Funds..... | 13 | C-1 |
| Reconciliation of the Governmental Funds | | |
| Balance Sheet to the Statement of Net Assets..... | 14 | C-1R |
| Statement of Revenues, Expenditures, and Changes in | | |
| Fund Balances - Governmental Funds..... | 15 | C-2 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in | | |
| Fund Balances of Governmental Funds to the Statement of Activities..... | 16 | C-3 |
| Statement of Net Assets - Internal Service Fund..... | 17 | D-1 |
| Statement of Revenues, Expenses, and Changes in | | |
| Fund Net Assets - Internal Service Fund..... | 18 | D-2 |
| Statement of Cash Flows - Proprietary Funds..... | 19 | D-3 |
| Statement of Fiduciary Net Assets - Fiduciary Funds..... | 20 | E-1 |
| Statement of Changes in Fiduciary Net Assets - Fiduciary Funds..... | 21 | E-2 |
| Notes to the Financial Statements | 22 | |
| <u>Required Supplementary Information:</u> | | |
| Budgetary Comparison Schedules: | | |
| General Fund..... | 34 | G-1 |
| <u>Combining Statements and Budgetary Comparison Schedules as Supplementary Information:</u> | | |
| Combining Balance Sheet - All Nonmajor Governmental Funds..... | 36 | H-1 |
| Combining Statement of Revenues, Expenditures and Changes in | | |
| Fund Balances - All Nonmajor Governmental Funds..... | 37 | H-2 |
| Special Revenue Funds: | | |
| Combining Balance Sheet - Nonmajor Special Revenue Funds..... | 38 | H-3 |
| Combining Statement of Revenues, Expenditures and Changes | | |
| in Fund Balances - Nonmajor Special Revenue Funds..... | 42 | H-4 |

Odem-Edroy Independent School District
Annual Financial Report
For The Year Ended August 31, 2011

TABLE OF CONTENTS

| | <u>Page</u> | <u>Exhibit</u> |
|---|-------------|----------------|
| Enterprise Funds: | | |
| Budgetary Comparison Schedule: | | |
| National School Breakfast and Lunch Program..... | 46 | H-5 |
| OTHER SUPPLEMENTARY INFORMATION SECTION | | |
| Schedule of Delinquent Taxes Receivable..... | 47 | J-1 |
| Indirect Cost Computation Schedule | 49 | J-2 |
| Budgetary Comparison Schedules Required by the Texas Education Agency: | | |
| Debt Service Fund..... | 50 | J-3 |
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 51 | |
| 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..... | 53 | |
| Schedule of Findings and Questioned Costs | 55 | |
| Summary Schedule of Prior Audit Findings..... | 57 | |
| Corrective Action Plan..... | 58 | |
| Schedule of Expenditures of Federal Awards | 59 | K-1 |
| Notes to the Schedule of Expenditures of Federal Awards..... | 60 | |
| Schedule of Required Responses to Selected School First Indicators..... | 61 | K-2 |

Introductory Section

CERTIFICATE OF BOARD

Odem-Edroy Independent School District
Name of School District

Nueces
County

205-905
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 16th day of JANUARY, 2012.



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)

Financial Section

Gowland, Strealy, Morales & Company

A Professional Limited Liability Company
Certified Public Accountants

Tommy Strealy CPA
David Morales CPA
Jerry D. Spence CPA

Professional Associates & Senior Advisor:
Peggy Sidler CPA
Betty Morales CPA
Ryan Johnston
Erika M. Post
Thomas Withers
Greg Morales
Dudley Gowland CPA

Independent Auditor's Report on Financial Statements

Board of Trustees
Odem-Edroy Independent School District
One Owl Square
Odem, Texas 78370

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Odem-Edroy 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 Odem-Edroy 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 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, the business-type activities, each major fund, and the aggregate remaining fund information of Odem-Edroy 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.

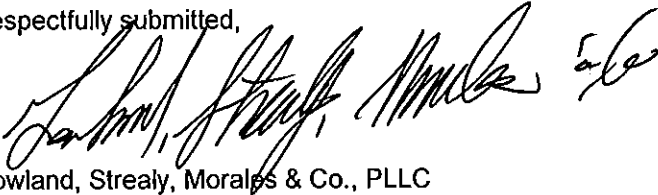
In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2012, on our consideration of Odem-Edroy Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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Members of the American Institute and Texas Society of Certified Public Accountants

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

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the Odem-Edroy Independent School District's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the combining financial statements and supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "L. Streaty", is written over the typed name of the firm.

Gowland, Streaty, Morales & Co., PLLC

January 11, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Odem-Edroy 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, 2010. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net assets were \$3,418,517 at August 31, 2011.
- During the year, the District's expenses were \$391,879 more than the \$12,445,106 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs decreased \$534,369 from last year.
- The general fund reported a fund balance this year of \$509,092.
- The District did not issue any bonds during the fiscal year ending August 31, 2011.

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. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1F, Required Components of the District's Annual Financial Report

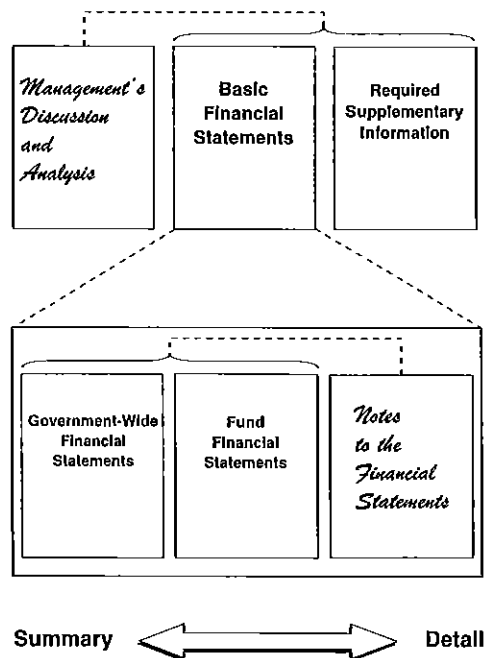


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of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

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.

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

| Type of Statements | Fund Statements | | | |
|--|--|--|---|--|
| | Government-wide | Governmental Funds | Proprietary Funds | Fiduciary Funds |
| Scope | Entire Agency's government (except fiduciary funds) and the Agency's component units | The activities of the district that are not proprietary or fiduciary | Activities the district operates similar to private businesses: self insurance | Instances in which the district is the trustee or agent for someone else's resources |
| Required financial statements | • Statement of net assets | • Balance sheet | • Statement of net assets | • Statement of fiduciary net assets |
| | • Statement of activities | • Statement of revenues, expenditures & changes in fund balances | • Statement of revenues, expenses and changes in fund net assets • Statement of cash flows | • Statement of changes in fiduciary net assets |
| Accounting basis and measurement focus | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| Type of asset/liability information | All assets and liabilities, both financial and capital, short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can |
| Type of inflow/outflow information | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid | All revenues and expenses during year, regardless of when cash is received or paid |

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

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional 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. Property taxes and grants finance most of these activities.

Fund Financial Statements

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

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

The District has 2 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.

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's combined net assets were approximately \$3,418,517 at August 31, 2011. (See Table A-1).

Table A-1
Odem-Edroy Independent School District's Net Assets
(In actual dollars)

| | Governmental Activities 2011 | Business Type 2011 | Total 2010 | Total 2010 | Change 2011-2010 |
|---|------------------------------------|--------------------------|---------------------|---------------------|---------------------|
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 872,679 | \$ 25,414 | \$ 898,093 | \$ 201,001 | \$ 697,092 |
| Property Taxes Receivable | 238,640 | | 238,640 | 263,573 | (24,933) |
| Due from Other Governments | 615,616 | 17,293 | 632,909 | 1,088,283 | (455,374) |
| Due from Fiduciary | 53,449 | | 53,449 | - | 53,449 |
| Other receivables | 30,197 | | 30,197 | 23,489 | 6,708 |
| Inventories | 3,174 | 21,272 | 24,446 | 25,697 | (1,251) |
| Deferred expenses | 101,724 | | 101,724 | 170,675 | (68,951) |
| Total current assets: | <u>1,915,479</u> | <u>63,979</u> | <u>1,979,458</u> | <u>1,772,718</u> | <u>206,740</u> |
| Noncurrent assets: | | | | | |
| Land | 145,973 | | 145,973 | 145,973 | - |
| Bldg, Furniture and equipment | <u>8,420,822</u> | <u>16,464</u> | <u>8,437,286</u> | <u>8,786,578</u> | <u>(349,292)</u> |
| Total noncurrent assets | <u>8,566,795</u> | <u>16,464</u> | <u>8,583,259</u> | <u>8,932,551</u> | <u>(349,292)</u> |
| Total Assets | <u>10,482,274</u> | <u>80,443</u> | <u>10,562,717</u> | <u>10,705,269</u> | <u>(142,552)</u> |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | 502,852 | 13,267 | 516,119 | 467,290 | 48,829 |
| Deferred revenue | <u>461,323</u> | | <u>461,323</u> | - | <u>461,323</u> |
| Total current liabilities | <u>964,175</u> | <u>13,267</u> | <u>977,442</u> | <u>467,290</u> | <u>510,152</u> |
| Noncurrent Liabilities: | | | | | |
| Due within one year | 335,000 | | 335,000 | 325,000 | 10,000 |
| Due in more than one year | <u>5,831,758</u> | | <u>5,831,758</u> | <u>6,145,421</u> | <u>(313,663)</u> |
| Total Liabilities | <u>7,130,933</u> | <u>13,267</u> | <u>7,144,200</u> | <u>6,937,711</u> | <u>206,489</u> |
| Net Assets: | | | | | |
| Invested in capital assets | 2,856,798 | | 2,856,798 | 2,888,157 | (31,359) |
| Restricted for State and Federal Programs | 2,087 | 67,176 | 69,263 | 4,565 | 64,698 |
| Restricted for Debt Service | 128,331 | | 128,331 | 87,893 | 40,438 |
| Unrestricted | <u>364,125</u> | | <u>364,125</u> | <u>786,944</u> | <u>(422,819)</u> |
| Total Net Assets | <u>\$ 3,351,341</u> | <u>\$ 67,176</u> | <u>\$ 3,418,517</u> | <u>\$ 3,767,559</u> | <u>\$ (349,042)</u> |

Changes in net assets. The District's total revenues were \$12,030,436. A significant portion, 28 percent, of the District's revenue comes from taxes. 47 percent comes from State Aid – formula grants. The remainder comes from state and federal programs, investment earnings, charges for services, and miscellaneous other services.

The total cost of all programs and services was \$12,314,643.

Governmental Activities

Table A-2
Charges in Odem-Edroy Independent School District's Net Assets
(In actual dollars)

| | Governmental Activities 2011 | Business-Type Activities 2011 | Total 2011 | Total 2010 | Change 2011-2010 |
|--|------------------------------------|-------------------------------------|----------------------|-------------------|---------------------|
| Program Revenues: | | | | | |
| Charges for Services | \$ 39,606 | \$ 137,277 | \$ 176,883 | 161,082 | 15,801 |
| Operating Grants and Contributions | 2,601,303 | 430,479 | 3,031,782 | 3,280,964 | (249,182) |
| General Revenues | | | | | |
| Property Taxes | 3,425,378 | | 3,425,378 | 2,689,096 | 736,282 |
| State Aid – Formula | 5,689,349 | | 5,689,349 | 6,377,083 | (687,734) |
| Investment Earnings | 21,060 | 456 | 21,516 | 10,695 | 10,821 |
| Other | 100,198 | | 100,198 | (39,471) | 139,669 |
| Total Revenues | <u>11,876,894</u> | <u>568,212</u> | <u>12,445,106</u> | <u>12,479,449</u> | <u>(34,343)</u> |
| Instruction | 6,178,705 | | 6,178,705 | 6,447,913 | (269,208) |
| Instructional Resources and Media Services | 285,238 | | 285,238 | 302,017 | (16,779) |
| Curriculum Dev. and Instructional Staff Dev. | 419,276 | | 419,276 | 505,938 | (86,662) |
| Instructional Leadership | 205,573 | | 205,573 | 170,568 | 35,005 |
| School Leadership | 634,777 | | 634,777 | 691,510 | (56,733) |
| Guidance, Counseling and Evaluation Services | 351,516 | | 351,516 | 353,468 | (1,952) |
| Health Services | 122,386 | | 122,386 | 119,029 | 3,357 |
| Student (Pupil) Transportation | 326,360 | | 326,360 | 315,700 | 10,660 |
| Food Services | 13,128 | 522,342 | 535,470 | 585,882 | (50,412) |
| Curricular/Extracurricular Activities | 672,269 | | 672,269 | 655,186 | 17,083 |
| General Administration | 777,008 | | 777,008 | 692,744 | 84,264 |
| Plant Maintenance & Oper. | 1,746,933 | | 1,746,933 | 1,811,049 | (64,116) |
| Security and Monitoring Services | 8,695 | | 8,695 | 10,533 | (1,838) |
| Data Processing Services | 92,095 | | 92,095 | 83,866 | 8,229 |
| Community Service | 57,928 | | 57,928 | 51,831 | 6,097 |
| Interest on Long-term Debt | 270,065 | | 270,065 | 283,229 | (13,164) |
| Bond Fees | 1,793 | | 1,793 | 2,170 | (377) |
| Member Dist. – SSA | 117,000 | | 117,000 | 244,439 | (127,439) |
| Other Intergovernmental Charges | 33,898 | | 33,898 | 44,282 | (10,384) |
| Total Expenses | <u>\$ 12,314,643</u> | <u>\$ 522,342</u> | <u>\$ 12,836,985</u> | <u>13,371,354</u> | <u>(534,369)</u> |
| Change in Net Assets | <u>\$ (437,749)</u> | <u>\$ 45,870</u> | <u>\$ (391,879)</u> | <u>(891,905)</u> | <u>500,026</u> |

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

- The cost of all *governmental* activities this year was \$12,314,643.
- However, the amount that our taxpayers paid for these activities through property taxes was \$3,425,378.
- Some of the cost was paid by those who directly benefited from the programs \$39,606, or
- By grants and contributions \$2,601,303

Table A-3
Net Cost of Selected District Functions
(in actual dollars)

| | Total Cost of Services | | % Change | Net Cost of Services | | % Change |
|--------------------------------|------------------------|--------------|----------|----------------------|--------------|----------|
| | 2011 | 2010 | | 2011 | 2010 | |
| Instruction | \$ 6,178,705 | \$ 6,447,913 | -4.36% | \$ 4,467,944 | \$ 4,651,602 | -4.11% |
| School Leadership | 634,777 | 691,510 | -8.94% | 592,131 | 642,946 | -8.58% |
| General Administration | 777,008 | 692,744 | 10.84% | 724,876 | 644,095 | 11.14% |
| Plant Maintenance & Operations | 1,746,933 | 1,811,049 | -3.67% | 1,625,366 | 1,681,903 | -3.48% |

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$11,901,828, a decrease of 2% over the preceding year \$12,121,360.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget to account for decreased revenue received. However, the actual revenue received was \$130,454 or 1.35% less than the final estimated revenue. Appropriations had been decreased in anticipation of reduced revenue but the actual final expenditures exceeded the appropriations by \$99,635. This was primarily because of underestimation of payroll accruals.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2011, the District had invested \$17,580,387 in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.) This amount represents a net decrease (including additions and deductions) of \$349,292.

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

| | Government Activities | | Additions | Deletions | Total 2011 |
|--------------------------------|-----------------------|--------------|-----------|-----------|------------|
| | 2010 | | | | |
| Land | \$ 145,973 | \$ | \$ | \$ | 145,973 |
| Buildings and improvements | 14,625,714 | | | | 14,625,714 |
| Equipment & Vehicles | 2,796,724 | 11,976 | | | 2,808,700 |
| Totals at historical cost | 17,568,411 | 11,976 | - | | 17,580,387 |
| Total accumulated depreciation | 8,635,860 | 361,268 | | | 8,997,128 |
| Net capital assets | \$ 8,932,551 | \$ (349,292) | \$ | \$ | 8,583,259 |

The District's expenditures for capital projects in fiscal year 2011 consisted of: the replacement of a large steam pot in the cafeteria. More detailed information about the District's capital assets is presented in Note 1 to the financial statements.

Long Term Debt

At year-end the District had \$5,364,997 in bonds outstanding as shown in Table A-5. More detailed information about the District debt is presented in the Notes to the Financial Statements.

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

| | Governmental Activities | |
|-------------------|----------------------------|---------------------|
| | 2011 | 2010 |
| Bonds Payable | \$ 5,364,997 | \$ 5,584,997 |
| Accretion Payable | 456,761 | 435,424 |
| Maintenance Notes | 345,000 | 450,000 |
| | <u>\$ 6,166,758</u> | <u>\$ 6,470,421</u> |

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The District's general fund balance decreased \$322,338 in 2011 to \$509,092.
- The District's refined average daily attendance has declined over the past 3 years and continues.
- The taxable value of the district for school tax purposes decreased 24% in 2011 to \$211,359,482. This change is expected to result in a decrease of \$633,006 in tax levy for 2011-2012.
- Additional revenue from a Chapter 313 agreement is expected to be \$293,738 in lieu of taxes.
- State program revenue is expected to decrease by 9.2% for 2011-2012.
- General operating expenditures are expected to decrease by \$975,368.
- General operating fund spending per student is expected to decrease from \$9,876 to \$8,930.

Estimated revenue available for appropriation in the general fund budget for 2011-2012 is \$9,091,606, a decrease of less than 4.7% from the final 2010-2011 receipts of \$9,540,271.

Expenditures are budgeted to decrease 9.8% to \$8,930,080 for 2011-2012. The District has added no major new programs or initiatives to the 2011-2012 budget.

If these estimates are realized, the District's budgetary general fund balance should be increased approximately \$161,526 at close of 2011-2012.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

Basic Financial Statements

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

AUGUST 31, 2011

| Data Control Codes | 1 Governmental Activities | 2 Business-type Activities | 3 Total |
|--|---------------------------------|----------------------------------|---------------------|
| ASSETS: | | | |
| 1110 Cash and Cash Equivalents | \$ 872,679 | \$ 25,414 | \$ 898,093 |
| 1225 Property Taxes Receivable (Net) | 238,640 | -- | 238,640 |
| 1240 Due from Other Governments | 615,616 | 17,293 | 632,909 |
| 1267 Due from Fiduciary | 53,449 | -- | 53,449 |
| 1290 Other Receivables (Net) | 30,197 | -- | 30,197 |
| 1300 Inventories | 3,174 | 21,272 | 24,446 |
| 1410 Deferred Expenses | 101,724 | -- | 101,724 |
| Capital Assets: | | | |
| 1510 Land | 145,973 | -- | 145,973 |
| 1520 Buildings and Improvements, Net | 8,063,092 | -- | 8,063,092 |
| 1530 Furniture and Equipment, Net | 357,730 | 16,464 | 374,194 |
| 1000 Total Assets | <u>10,482,274</u> | <u>80,443</u> | <u>10,562,717</u> |
| LIABILITIES: | | | |
| 2110 Accounts Payable | 85,066 | 248 | 85,314 |
| 2120 Short-Term Debt Payable | 110,000 | -- | 110,000 |
| 2165 Accrued Liabilities | 413,074 | 13,019 | 426,093 |
| 2180 Due to Other Governments | 4,712 | -- | 4,712 |
| 2300 Unearned Revenue | 461,323 | -- | 461,323 |
| Noncurrent Liabilities: | | | |
| 2501 Due Within One Year | 225,000 | -- | 225,000 |
| 2502 Due in More Than One Year | 5,831,758 | -- | 5,831,758 |
| 2000 Total Liabilities | <u>7,130,933</u> | <u>13,267</u> | <u>7,144,200</u> |
| NET ASSETS | | | |
| 3200 Invested in Capital Assets, Net of Related Debt | 2,856,798 | -- | 2,856,798 |
| Restricted For: | | | |
| 3820 Federal and State Programs | 2,087 | 67,176 | 69,263 |
| 3850 Debt Service | 128,331 | -- | 128,331 |
| 3900 Unrestricted | 364,125 | -- | 364,125 |
| 3000 Total Net Assets | <u>\$ 3,351,341</u> | <u>\$ 67,176</u> | <u>\$ 3,418,517</u> |

The accompanying notes are an integral part of this statement.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2011

| Data Control Codes | Functions/Programs | 1 | 3 | 4 |
|--------------------------|--|---------------|---|--|
| | | Expenses | Program Revenues Charges for Services | Operating Grants and Contributions |
| | Governmental Activities: | | | |
| 11 | Instruction | \$ 6,178,705 | \$ 17,950 | \$ 1,692,811 |
| 12 | Instructional Resources and Media Services | 285,238 | 1,116 | 18,047 |
| 13 | Curriculum and Staff Development | 419,276 | 1,079 | 156,719 |
| 21 | Instructional Leadership | 205,573 | 48 | 188,178 |
| 23 | School Leadership | 634,777 | 2,484 | 40,162 |
| 31 | Guidance, Counseling, & Evaluation Services | 351,516 | 1,298 | 38,539 |
| 33 | Health Services | 122,386 | 479 | 7,743 |
| 34 | Student Transportation | 326,360 | 1,277 | 20,649 |
| 35 | Food Service | 13,128 | 65 | 9,228 |
| 36 | Cocurricular/Extracurricular Activities | 672,269 | 2,630 | 42,534 |
| 41 | General Administration | 777,008 | 3,036 | 49,096 |
| 51 | Plant Maintenance and Operations | 1,746,933 | 6,841 | 114,726 |
| 52 | Security and Monitoring Services | 8,695 | 34 | 550 |
| 53 | Data Processing Services | 92,095 | 360 | 5,827 |
| 61 | Community Services | 57,928 | 227 | 3,665 |
| 72 | Interest on Long-term Debt | 270,065 | 73 | 202,987 |
| 73 | Bond Issuance Costs and Fees | 1,793 | -- | -- |
| 93 | Payments Related to Shared Services Arrangements | 117,000 | 472 | 7,631 |
| 99 | Other Intergovernmental Charges | 33,898 | 137 | 2,211 |
| TG | Total Governmental Activities | 12,314,643 | 39,606 | 2,601,303 |
| | Business-type Activities: | | | |
| 05 | Food Services | 522,342 | 137,277 | 430,479 |
| TP | Total Primary Government | \$ 12,836,985 | \$ 176,883 | \$ 3,031,782 |
| | General Revenues: | | | |
| MT | Property Taxes, Levied for General Purposes | | | |
| DT | Property Taxes, Levied for Debt Service | | | |
| IE | Investment Earnings | | | |
| GC | Grants and Contributions Not Restricted to Specific Programs | | | |
| MI | Miscellaneous | | | |
| TR | Total General Revenues | | | |
| CN | Change in Net Assets | | | |
| NB | Net Assets - Beginning | | | |
| PA | Prior Period Adjustment | | | |
| | Net Assets - Beginning, as Restated | | | |
| NE | Net Assets - Ending | | | |

The accompanying notes are an integral part of this statement.

6

7

8

Net (Expense) Revenue and Changes in Net Assets

| <u>Governmental Activities</u> | <u>Business-type Activities</u> | <u>Total</u> |
|------------------------------------|-------------------------------------|---------------------|
| \$ (4,467,944) | | \$ (4,467,944) |
| (266,075) | | (266,075) |
| (261,478) | | (261,478) |
| (17,347) | | (17,347) |
| (592,131) | | (592,131) |
| (311,679) | | (311,679) |
| (114,164) | | (114,164) |
| (304,434) | | (304,434) |
| (3,835) | | (3,835) |
| (627,105) | | (627,105) |
| (724,876) | | (724,876) |
| (1,625,366) | | (1,625,366) |
| (8,111) | | (8,111) |
| (85,908) | | (85,908) |
| (54,036) | | (54,036) |
| (67,005) | | (67,005) |
| (1,793) | | (1,793) |
| (108,897) | | (108,897) |
| (31,550) | | (31,550) |
| <u>(9,673,734)</u> | | <u>(9,673,734)</u> |
| -- | \$ 45,414 | 45,414 |
| <u>(9,673,734)</u> | <u>45,414</u> | <u>(9,628,320)</u> |
| 3,134,265 | -- | 3,134,265 |
| 291,113 | -- | 291,113 |
| 21,060 | 456 | 21,516 |
| 5,689,349 | -- | 5,689,349 |
| 100,198 | -- | 100,198 |
| <u>9,235,985</u> | <u>456</u> | <u>9,236,441</u> |
| <u>(437,749)</u> | <u>45,870</u> | <u>(391,879)</u> |
| 3,746,251 | 21,306 | 3,767,557 |
| 42,839 | -- | 42,839 |
| 3,789,090 | 21,306 | 3,810,396 |
| <u>\$ 3,351,341</u> | <u>\$ 67,176</u> | <u>\$ 3,418,517</u> |

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2011

| Data Control Codes | 10 General Fund | Other Governmental Funds | 98 Total Governmental Funds |
|---|-----------------------|--------------------------------|--------------------------------------|
| ASSETS: | | | |
| 1110 Cash and Cash Equivalents | \$ 752,399 | \$ 47,125 | \$ 799,524 |
| 1225 Taxes Receivable, Net | 216,400 | 22,240 | 238,640 |
| 1240 Due from Other Governments | 475,650 | 139,966 | 615,616 |
| 1260 Due from Other Funds | 168,152 | 660 | 168,812 |
| 1290 Other Receivables | 30,185 | 12 | 30,197 |
| 1300 Inventories | 3,174 | -- | 3,174 |
| 1410 Deferred Expenditures | 101,724 | -- | 101,724 |
| 1000 Total Assets | \$ 1,747,684 | \$ 210,003 | \$ 1,957,687 |
| LIABILITIES: | | | |
| Current Liabilities: | | | |
| 2110 Accounts Payable | \$ 85,066 | \$ -- | \$ 85,066 |
| 2150 Payroll Deductions & Withholdings | 3,629 | -- | 3,629 |
| 2160 Accrued Wages Payable | 366,148 | 43,297 | 409,445 |
| 2170 Due to Other Funds | 106,049 | 9,314 | 115,363 |
| 2180 Due to Other Governments | -- | 4,712 | 4,712 |
| 2300 Unearned Revenue | 677,700 | 22,262 | 699,962 |
| 2000 Total Liabilities | 1,238,592 | 79,585 | 1,318,177 |
| FUND BALANCES: | | | |
| Restricted Fund Balances: | | | |
| 3450 Federal/State Funds Grant Restrictions | -- | 2,087 | 2,087 |
| 3480 Retirement of Long-Term Debt | -- | 128,331 | 128,331 |
| 3600 Unassigned | 509,092 | -- | 509,092 |
| 3000 Total Fund Balances | 509,092 | 130,418 | 639,510 |
| 4000 Total Liabilities and Fund Balances | \$ 1,747,684 | \$ 210,003 | \$ 1,957,687 |

The accompanying notes are an integral part of this statement.

ODEM-EDROY 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 | \$ 639,510 |
| 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. | 8,566,795 |
| Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. | 238,639 |
| The assets and liabilities of internal service funds are included in governmental activities in the SNA. | 73,155 |
| Payables for bond principal which are not due in the current period are not reported in the funds. | (5,364,997) |
| Payables for notes which are not due in the current period are not reported in the funds. | (345,000) |
| Other long-term liabilities which are not due and payable in the current period are not reported in the funds. | <u>(456,761)</u> |
| Net assets of governmental activities - Statement of Net Assets | <u>\$ 3,351,341</u> |

The accompanying notes are an integral part of this statement.

ODEM-EDROY 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 General Fund | Other Governmental Funds | 98 Total Governmental Funds |
|---|-----------------------|--------------------------------|--------------------------------------|
| REVENUES: | | | |
| 5700 <i>Local and Intermediate Sources</i> | \$ 3,319,057 | \$ 298,129 | \$ 3,617,186 |
| 5800 <i>State Program Revenues</i> | 5,967,655 | 235,028 | 6,202,683 |
| 5900 <i>Federal Program Revenues</i> | 253,559 | 1,828,400 | 2,081,959 |
| 5020 Total Revenues | <u>9,540,271</u> | <u>2,361,557</u> | <u>11,901,828</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| 0011 <i>Instruction</i> | 4,449,681 | 1,511,764 | 5,961,445 |
| 0012 <i>Instructional Resources and Media Services</i> | 276,682 | -- | 276,682 |
| 0013 <i>Curriculum and Staff Development</i> | 267,423 | 139,276 | 406,699 |
| 0021 <i>Instructional Leadership</i> | 12,012 | 187,395 | 199,407 |
| 0023 <i>School Leadership</i> | 615,736 | -- | 615,736 |
| 0031 <i>Guidance, Counseling, & Evaluation Services</i> | 321,824 | 19,148 | 340,972 |
| 0033 <i>Health Services</i> | 118,715 | -- | 118,715 |
| 0034 <i>Student Transportation</i> | 316,571 | -- | 316,571 |
| 0035 <i>Food Service</i> | 4,082 | 9,011 | 13,093 |
| 0036 <i>Cocurricular/Extracurricular Activities</i> | 652,104 | -- | 652,104 |
| 0041 <i>General Administration</i> | 752,714 | -- | 752,714 |
| 0051 <i>Plant Maintenance and Operations</i> | 1,690,014 | 4,518 | 1,694,532 |
| 0052 <i>Security and Monitoring Services</i> | 8,434 | -- | 8,434 |
| 0053 <i>Data Processing Services</i> | 89,333 | -- | 89,333 |
| 0061 <i>Community Services</i> | 56,190 | -- | 56,190 |
| 0071 <i>Principal on Long-term Debt</i> | 105,000 | 220,000 | 325,000 |
| 0072 <i>Interest on Long-term Debt</i> | 17,235 | 231,493 | 248,728 |
| 0073 <i>Bond Issuance Costs and Fees</i> | 800 | 993 | 1,793 |
| 0093 <i>Payments to Shared Service Arrangements</i> | 117,000 | -- | 117,000 |
| 0099 <i>Other Intergovernmental Charges</i> | 33,898 | -- | 33,898 |
| 6030 Total Expenditures | <u>9,905,448</u> | <u>2,323,598</u> | <u>12,229,046</u> |
| 1100 Excess (Deficiency) of Revenues Over (Under) | | | |
| 1100 Expenditures | <u>(365,177)</u> | <u>37,959</u> | <u>(327,218)</u> |
| 1200 Net Change in Fund Balances | <u>(365,177)</u> | <u>37,959</u> | <u>(327,218)</u> |
| 0100 Fund Balances - Beginning | 831,430 | 92,459 | 923,889 |
| 1300 Prior Period Adjustment | 42,839 | -- | 42,839 |
| Fund Balances - Beginning, as Restated | 874,269 | 92,459 | 966,728 |
| 3000 Fund Balances - Ending | <u>\$ 509,092</u> | <u>\$ 130,418</u> | <u>\$ 639,510</u> |

The accompanying notes are an integral part of this statement.

ODEM-EDROY 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 | \$ (327,218) |
| Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because: | |
| The depreciation of capital assets used in governmental activities is not reported in the funds. | (356,356) |
| Certain property tax revenues are deferred in the funds. This is the change in these amounts this year. | (24,934) |
| Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA. | 220,000 |
| Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA. | 105,000 |
| The accretion of interest on capital appreciation bonds is not reported in the funds. | (21,337) |
| The net revenue (expense) of internal service funds is reported with governmental activities. | <u>(32,904)</u> |
| Change in net assets of governmental activities - Statement of Activities | \$ <u><u>(437,749)</u></u> |

The accompanying notes are an integral part of this statement.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS

INTERNAL SERVICE FUND

AUGUST 31, 2011

| Data Control Codes | | Nonmajor Enterprise Fund | Nonmajor Internal Service Fund |
|--------------------------|----------------------------|--|--------------------------------------|
| | | National Breakfast/Lunch Program | Insurance Fund |
| | ASSETS: | | |
| | Current Assets: | | |
| 1110 | Cash and Cash Equivalents | \$ 25,414 | \$ 73,155 |
| | Receivables: | | |
| 1240 | Due from Other Governments | 17,293 | -- |
| 1310 | Inventories, at Cost | 21,272 | -- |
| | Total Current Assets | <u>63,979</u> | <u>73,155</u> |
| | Noncurrent Assets: | | |
| | Capital Assets: | | |
| 1530 | Furniture and Equipment | 116,657 | -- |
| 1570 | Accumulated Depreciation | (100,193) | -- |
| | Total Noncurrent Assets | <u>16,464</u> | <u>--</u> |
| 1000 | Total Assets | <u>\$ 80,443</u> | <u>\$ 73,155</u> |
| | LIABILITIES: | | |
| | Current Liabilities: | | |
| 2110 | Accounts Payable | \$ 248 | \$ -- |
| 2160 | Accrued Wages Payable | 13,019 | -- |
| | Total Current Liabilities | <u>13,267</u> | <u>--</u> |
| 2000 | Total Liabilities | <u>13,267</u> | <u>--</u> |
| | NET ASSETS: | | |
| 3800 | Restricted Net Assets | 67,176 | -- |
| 3900 | Unrestricted Net Assets | -- | 73,155 |
| 3000 | Total Net Assets | <u>\$ 67,176</u> | <u>\$ 73,155</u> |

The accompanying notes are an integral part of this statement.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENSES, AND CHANGES****IN FUND NET ASSETS - INTERNAL SERVICE FUND****FOR THE YEAR ENDED AUGUST 31, 2011**

| Data Control Codes | | Nonmajor Enterprise Fund | Nonmajor Internal Service Fund |
|--------------------------|---|--|--------------------------------------|
| | | National Breakfast/Lunch Program | Insurance Fund |
| | OPERATING REVENUES: | | |
| 5700 | Local and Intermediate Sources | \$ 137,733 | \$ 41,657 |
| 5800 | State Program Revenues | 3,833 | -- |
| 5900 | Federal Program Revenues | 11,976 | -- |
| 5020 | Total Revenues | <u>153,542</u> | <u>41,657</u> |
| | OPERATING EXPENSES: | | |
| 6100 | Payroll Costs | 233,325 | 7,186 |
| 6200 | Professional and Contracted Services | 13,584 | 30,056 |
| 6300 | Supplies and Materials | 269,656 | -- |
| 6400 | Other Operating Costs | 5,777 | 37,319 |
| 6030 | Total Expenses | <u>522,342</u> | <u>74,561</u> |
| | Operating Income (Loss) | <u>(368,800)</u> | <u>(32,904)</u> |
| | NON-OPERATING REVENUES (EXPENSES): | | |
| 7952 | National School Breakfast Program | 78,858 | -- |
| 7953 | National School Lunch Program | 300,201 | -- |
| 7954 | USDA Donated Commodities | 35,611 | -- |
| 8030 | Total Non-operating Revenues (Expenses) | <u>414,670</u> | <u>--</u> |
| 1300 | Change in Net Assets | 45,870 | (32,904) |
| 0100 | Total Net Assets - Beginning | 21,306 | 106,059 |
| 8300 | Total Net Assets - Ending | <u>\$ 67,176</u> | <u>\$ 73,155</u> |

The accompanying notes are an integral part of this statement.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2011

| | Nonmajor Enterprise Fund National Breakfast/Lunch Program | Nonmajor Internal Service Fund Insurance Fund |
|---|--|---|
| Cash Flows from Operating Activities: | | |
| Cash Received from Customers | \$ 114,277 | \$ -- |
| Cash Received from Grants | | -- |
| Cash Receipts (Payments) for Quasi-external Operating Transactions with Other Funds | -- | 41,656 |
| Cash Payments to Employees for Services | (230,811) | (7,185) |
| Cash Payments to Other Suppliers for Goods and Services | (247,691) | (67,375) |
| Cash Payments for Grants to Other Organizations | -- | -- |
| Net Cash Provided (Used) by Operating Activities | (364,225) | (32,904) |
| Cash Flows from Non-capital Financing Activities: | | |
| Transfers From (To) Primary Government | -- | -- |
| Transfers From (To) Other Funds | -- | -- |
| Net Cash Provided (Used) by Non-capital Financing Activities | -- | -- |
| Cash Flows from Capital and Related Financing Activities: | | |
| Acquisition or Construction of Capital Assets | (11,976) | -- |
| Contributed Capital | -- | -- |
| Net Cash Provided (Used) for Capital & Related Financing Activities | (11,976) | -- |
| Cash Flows from Investing Activities: | | |
| Cash Received from Grants | 414,670 | -- |
| Interest and Dividends on Investments | | |
| Net Cash Provided (Used) for Investing Activities | 414,670 | -- |
| Net Increase (Decrease) in Cash and Cash Equivalents | 38,469 | (32,904) |
| Cash and Cash Equivalents at Beginning of Year | (13,055) | 106,059 |
| Cash and Cash Equivalents at End of Year | \$ 25,414 | \$ 73,155 |
| Reconciliation of Operating Income to Net Cash Provided by Operating Activities: | | |
| Operating Income (Loss) | \$ (368,800) | \$ (32,904) |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities | | |
| Depreciation | 4,910 | -- |
| Provision for Uncollectible Accounts | -- | -- |
| Change in Assets and Liabilities: | | |
| Decrease (Increase) in Receivables | (3,654) | -- |
| Decrease (Increase) in Inventories | 1,313 | -- |
| Decrease (Increase) in Prepaid Expenses | -- | -- |
| Increase (Decrease) in Accounts Payable | (508) | -- |
| Increase (Decrease) in Payroll Deductions | -- | -- |
| Increase (Decrease) in Accrued Wages Payable | 2,514 | -- |
| Increase (Decrease) in Interfund Payables | -- | -- |
| Increase (Decrease) in Due to Other Governments | -- | -- |
| Increase (Decrease) in Accrued Expenses | -- | -- |
| Increase (Decrease) in Unearned Revenue | -- | -- |
| Total Adjustments | 4,575 | -- |
| Net Cash Provided (Used) by Operating Activities | \$ (364,225) | \$ (32,904) |

The accompanying notes are an integral part of this statement.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT**STATEMENT OF FIDUCIARY NET ASSETS****FIDUCIARY FUNDS****AUGUST 31, 2011**

| Data Control Codes | | Private-purpose Trust Fund | Agency Fund |
|--------------------------|---------------------------------------|----------------------------------|---------------------|
| | | | Student Activity |
| | ASSETS: | | |
| 1110 | <i>Cash and Cash Equivalents</i> | \$ 612,157 | \$ 76,784 |
| 1000 | Total Assets | <u>\$ 612,157</u> | <u>\$ 76,784</u> |
| | LIABILITIES: | | |
| | Current Liabilities: | | |
| 2170 | <i>Due to Other Funds</i> | \$ -- | \$ 53,449 |
| 2190 | <i>Due to Student Groups</i> | -- | 23,335 |
| 2400 | <i>Payable from Restricted Assets</i> | 610,127 | -- |
| 2000 | Total Liabilities | <u>610,127</u> | <u>76,784</u> |
| | NET ASSETS | | |
| 3800 | <i>Held in Trust</i> | 2,030 | -- |
| 3000 | Total Net Assets | <u>\$ 2,030</u> | <u>\$ --</u> |

The accompanying notes are an integral part of this statement.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS****FIDUCIARY FUNDS****FOR THE YEAR ENDED AUGUST 31, 2011**

| | Private- Purpose Trusts |
|---|-------------------------------|
| Additions: | |
| Investment Income | \$ -- |
| Net (Decrease) in Fair Value of Investments | -- |
| Contributions | 2,030 |
| Plan Member Contributions | -- |
| Total Additions | <u>2,030</u> |
| Deductions: | |
| Scholarship Awards | -- |
| Benefits | -- |
| Refunds of Contributions | -- |
| Administrative Expenses | -- |
| Total Deductions | <u>--</u> |
| Change in Net Assets | -- |
| Net Assets-Beginning of the Year | -- |
| Net Assets-End of the Year | <u><u>\$ 2,030</u></u> |

The accompanying notes are an integral part of this statement.

ODEM-EDROY 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 Odem-Edroy 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. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the District and 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 and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise 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.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2011

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 unrestricted resources first, then restricted 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 to apply future FASB standards.

ODEM-EDROY 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.

| | General Fund | Debt Service Fund | Total |
|--------------------------------------|-----------------|----------------------|------------|
| Delinquent Taxes | \$ 547,891 | \$ 56,563 | \$ 604,454 |
| Allowance for Uncollectible Accounts | (331,491) | (34,323) | (365,814) |
| Net Taxes | \$ 216,400 | \$ 22,240 | \$ 238,640 |

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 | 20 |
| Vehicles | 10 |
| Office Equipment | 7 |
| Computer Equipment | 7 |

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2011

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 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 governing board. Committed amounts cannot be used for any other purpose unless the governing board 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 governing board. 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 governing board or by an official or body to which the governing board 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 convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2011

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.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

Violation

Expenditures exceeded budget:

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|--|---------------|---------------|-----------------|
| <u>General Fund:</u> | | | |
| 0011 Instruction | \$ 4,303,964 | \$ 4,449,681 | \$ (145,717) |
| 0034 Student (Pupil) Transportation | 313,000 | 316,571 | (3,571) |
| 0036 Cocurricular/Extracurricular Activities | 617,000 | 652,104 | (35,104) |
| <u>National School Breakfast and Lunch Program</u> | | | |
| 6200 Professioanl and Contracted Services | 10,650 | 13,584 | (2,934) |
| 6400 Other Operating Costs | 2,713 | 5,777 | (3,064) |

Variances with requirement to spend funds allocated by the Texas Education Agency:

| | <u>55% of Allocation</u> | <u>Actual Amount Spent</u> | <u>Variance</u> |
|------------------------|------------------------------|--------------------------------|-----------------|
| <u>Program:</u> | | | |
| 21 Gifted & Talented | \$ 19,532 | \$ 1,315 | \$ (18,217) |
| 25 Bilingual Education | \$ 8,068 | \$ 1,667 | \$ (6,401) |

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

| <u>Fund Name</u> | <u>Deficit Amount</u> | <u>Remarks</u> |
|------------------|---------------------------|----------------|
| None reported | Not applicable | Not applicable |

C. 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.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2011

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 \$1,587,006 and the bank balance was \$1,594,079. 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.

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.

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.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2011

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.

D. Capital Assets

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

| | Beginning Balances | Increases | Decreases | Ending Balances |
|--|-----------------------|--------------|-----------|--------------------|
| <u>Governmental activities:</u> | | | | |
| <i>Capital assets not being depreciated:</i> | | | | |
| Land | \$ 145,973 | \$ -- | \$ -- | \$ 145,973 |
| Total capital assets not being depreciated | 145,973 | -- | -- | 145,973 |
| <i>Capital assets being depreciated:</i> | | | | |
| Buildings and improvements | 14,625,714 | -- | -- | 14,625,714 |
| Equipment | 1,807,779 | -- | -- | 1,807,779 |
| Vehicles | 884,265 | -- | -- | 884,265 |
| Total capital assets being depreciated | 17,317,758 | -- | -- | 17,317,758 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (6,294,237) | (268,385) | -- | (6,562,622) |
| Equipment | (1,609,947) | (37,806) | -- | (1,647,753) |
| Vehicles | (636,393) | (50,168) | -- | (686,561) |
| Total accumulated depreciation | (8,540,577) | (356,359) | -- | (8,896,936) |
| Total capital assets being depreciated, net | 8,777,181 | (356,359) | -- | 8,420,822 |
| Governmental activities capital assets, net | \$ 8,923,154 | \$ (356,359) | \$ -- | \$ 8,566,795 |
| | | | | |
| Equipment | 104,680 | 11,976 | -- | 116,656 |
| Total capital assets being depreciated | 104,680 | 11,976 | -- | 116,656 |
| Equipment | (95,283) | (4,909) | -- | (100,192) |
| Total accumulated depreciation | (95,283) | (4,909) | -- | (100,192) |
| Total capital assets being depreciated, net | 9,397 | 7,067 | -- | 16,464 |
| Business-type activities capital assets, net | \$ 9,397 | \$ 7,067 | \$ -- | \$ 16,464 |

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2011

Depreciation was charged to functions as follows:

| | |
|---|-------------------|
| Instruction | \$ 184,358 |
| Instructional Resources and Media Services | 8,556 |
| Curriculum and Staff Development | 12,577 |
| Instructional Leadership | 6,166 |
| School Leadership | 19,041 |
| Guidance, Counseling, & Evaluation Services | 10,544 |
| Health Services | 3,671 |
| Student Transportation | 9,789 |
| Food Services | 35 |
| Extracurricular Activities | 20,165 |
| General Administration | 24,294 |
| Plant Maintenance and Operations | 52,401 |
| Security and Monitoring Services | 261 |
| Data Processing Services | 2,762 |
| Community Services | 1,738 |
| | <u>\$ 356,359</u> |

E. 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:

| <u>Due To Fund</u> | <u>Due From Fund</u> | <u>Amount</u> | <u>Purpose</u> |
|--------------------------|--------------------------|-------------------|------------------|
| General Fund | General Fund (Payroll) | \$ 105,389 | Short-term loans |
| General Fund | Other Governmental Funds | 6,130 | Short-term loans |
| General Fund | Debt Service | 3,184 | Short-term loans |
| General Fund | Trust & Agency | 53,449 | Short-term loans |
| Other Governmental Funds | General Fund | 660 | Short-term loans |
| | Total | <u>\$ 168,812</u> | |

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

F. 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.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2011

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: | | | | | |
| Unlimited Tax Refunding | | | | | |
| Bonds, Series 2006, 4.0% | \$ 4,639,997 | \$ -- | \$ 45,000 | \$ 4,594,997 | \$ 110,000 |
| Unlimited Tax Refunding | | | | | |
| Bonds, Series 2001, 6.25% | 880,000 | | 110,000 | 770,000 | 115,000 |
| Schoolhouse Bonds | | | | | |
| Series 1999 5.6% | 65,000 | | 65,000 | -- | |
| Total Bonds | 5,584,997 | -- | 220,000 | 5,364,997 | 225,000 |
| Maintenance Tax Notes | | | | | |
| Series 2009 3.83% | 450,000 | | 105,000 | 345,000 | 110,000 |
| Capital Appreciation Bonds: | | | | | |
| Accretion on 2006 | | | | | |
| Refunding Bonds | \$ 435,424 | \$ 21,337 | \$ -- | \$ 456,761 | |
| Total Long-term Liabilities | \$ 6,470,421 | \$ 21,337 | \$ 325,000 | \$ 6,166,758 | \$ 335,000 |
| | | | | 335,000 | |
| | | | | 5,831,758 | |

2. Debt Service Requirements

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

| Year Ending August 31, | Governmental Activities | | |
|------------------------|-------------------------|--------------|--------------|
| | Principal | Interest | Total |
| 2012 | \$ 225,000 | \$ 220,570 | \$ 445,570 |
| 2013 | 235,000 | 201,282 | 436,282 |
| 2014 | 245,000 | 201,523 | 446,523 |
| 2015 | 255,000 | 191,222 | 446,222 |
| 2016 | 265,000 | 180,373 | 445,373 |
| 2017-2021 | 789,997 | 1,446,156 | 2,236,153 |
| 2022-2026 | 1,670,000 | 565,321 | 2,235,321 |
| 2027-2031 | 1,680,000 | 197,473 | 1,877,473 |
| Totals | \$ 5,364,997 | \$ 3,203,920 | \$ 8,568,917 |

| Year Ending August 31, | Maintenance Tax Notes | | |
|------------------------|-----------------------|-----------|------------|
| | Principal | Interest | Total |
| 2012 | \$ 110,000 | \$ 13,214 | \$ 123,214 |
| 2013 | 115,000 | 12,001 | 127,001 |
| 2014 | 120,000 | 4,597 | 124,597 |
| Totals | \$ 345,000 | \$ 29,812 | \$ 374,812 |

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2011

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.

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 and 2010 were \$447,639 and \$476,112, respectively. The District paid additional state contributions for the years ending August 31, 2011 and 2010 in the amount of \$47,126 and \$48,005, 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.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2011

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 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 \$69,944, \$74,392, and \$78,186, respectively, the active member contributions were \$45,464, \$48,355, and \$50,821, respectively, and the District's contributions were \$38,469, \$40,916, and \$43,002, 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 \$16,617, \$19,105, and \$15,999, 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 contributed \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay contributions for dependents. All contributions were paid to a third party administrator, acting on behalf of the self-funded pool. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the third party administrator is renewable September 1, and terms of coverage and contribution costs are included in the contractual provisions.

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

No reportable litigation was pending against the District at August 31, 2011.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2011

L. Shared Services Arrangements

Shared Services Arrangement - Membership

The District participates in a shared services arrangement ("SSA") for Carl D Perkins Basic Formula Grant, Title IV Part B 21st Century Community Learning,IDEA-B Formula ARRA, and Title II-D Disc Grant ARRA. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, school name, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA.

M. Prior Period Adjustment

Governmental Funds:

General Fund:

A prior period adjustment was made to record Agency Fund balance.

\$ 42,839

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.

ODEM-EDROY 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 | | 1 | 2 | 3 | Variance with |
|--------------------------|---|------------------|--------------|--------------|--|
| | | Budgeted Amounts | | Actual | Final Budget Positive (Negative) |
| | | Original | Final | | |
| | REVENUES: | | | | |
| 5700 | Local and Intermediate Sources | \$ 3,115,570 | \$ 3,273,851 | \$ 3,319,057 | \$ 45,206 |
| 5800 | State Program Revenues | 6,558,160 | 6,322,155 | 5,967,655 | (354,500) |
| 5900 | Federal Program Revenues | 103,000 | 74,719 | 253,559 | 178,840 |
| 5020 | Total Revenues | 9,776,730 | 9,670,725 | 9,540,271 | (130,454) |
| | EXPENDITURES: | | | | |
| | Current: | | | | |
| | Instruction & Instructional Related Services: | | | | |
| 0011 | Instruction | 4,191,008 | 4,303,964 | 4,449,681 | (145,717) |
| 0012 | Instructional Resources and Media Services | 289,137 | 289,137 | 276,682 | 12,455 |
| 0013 | Curriculum and Staff Development | 272,559 | 272,559 | 267,423 | 5,136 |
| | Total Instruction & Instr. Related Services | 4,752,704 | 4,865,660 | 4,993,786 | (128,126) |
| | Instructional and School Leadership: | | | | |
| 0021 | Instructional Leadership | -- | 14,000 | 12,012 | 1,988 |
| 0023 | School Leadership | 621,247 | 618,000 | 615,736 | 2,264 |
| | Total Instructional & School Leadership | 621,247 | 632,000 | 627,748 | 4,252 |
| | Support Services - Student (Pupil): | | | | |
| 0031 | Guidance, Counseling and Evaluation Services | 336,187 | 323,000 | 321,824 | 1,176 |
| 0033 | Health Services | 119,042 | 119,042 | 118,715 | 327 |
| 0034 | Student (Pupil) Transportation | 335,892 | 313,000 | 316,571 | (3,571) |
| 0035 | Food Services | -- | 8,000 | 4,082 | 3,918 |
| 0036 | Cocurricular/Extracurricular Activities | 588,993 | 617,000 | 652,104 | (35,104) |
| | Total Support Services - Student (Pupil) | 1,380,114 | 1,380,042 | 1,413,296 | (33,254) |
| | Administrative Support Services: | | | | |
| 0041 | General Administration | 647,133 | 753,000 | 752,714 | 286 |
| | Total Administrative Support Services | 647,133 | 753,000 | 752,714 | 286 |
| | Support Services - Nonstudent Based: | | | | |
| 0051 | Plant Maintenance and Operations | 1,715,971 | 1,715,971 | 1,690,014 | 25,957 |
| 0052 | Security and Monitoring Services | 10,600 | 10,600 | 8,434 | 2,166 |
| 0053 | Data Processing Services | 86,231 | 92,000 | 89,333 | 2,667 |
| | Total Support Services - Nonstudent Based | 1,812,802 | 1,818,571 | 1,787,781 | 30,790 |
| | Ancillary Services: | | | | |
| 0061 | Community Services | 43,500 | 60,000 | 56,190 | 3,810 |
| | Total Ancillary Services | 43,500 | 60,000 | 56,190 | 3,810 |
| | Debt Service: | | | | |
| 0071 | Principal on Long-Term Debt | -- | 105,000 | 105,000 | -- |
| 0072 | Interest on Long-Term Debt | 122,235 | 17,235 | 17,235 | -- |
| 0073 | Bond Issuance Costs and Fees | -- | 800 | 800 | -- |
| | Total Debt Service | 122,235 | 123,035 | 123,035 | -- |
| | Intergovernmental Charges: | | | | |
| 0093 | Payments to Fiscal Agent/Member Dist.-SSA | 111,805 | 117,005 | 117,000 | 5 |
| 0099 | Other Intergovernmental Charges | 56,500 | 56,500 | 33,898 | 22,602 |
| | Total Intergovernmental Charges | 168,305 | 173,505 | 150,898 | 22,607 |
| 6030 | Total Expenditures | 9,548,040 | 9,805,813 | 9,906,448 | (99,635) |

ODEM-EDROY 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 | | |
| 1100 | Excess (Deficiency) of Revenues Over (Under) | | | | |
| 1100 | Expenditures | 228,690 | (135,088) | (365,177) | (230,089) |
| 1200 | Net Change in Fund Balance | 228,690 | (135,088) | (365,177) | (230,089) |
| 0100 | Fund Balance - Beginning | 831,430 | 831,430 | 831,430 | -- |
| 1300 | Prior Period Adjustment | -- | -- | 42,839 | 42,839 |
| 0100 | Fund Balance - Beginning, as Restated | 831,430 | 831,430 | 874,269 | 42,839 |
| 3000 | Fund Balance - Ending | \$ 1,060,120 | \$ 696,342 | \$ 509,092 | \$ (187,250) |

*Combining Statements and Budget Comparisons
as Supplementary Information*

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT**COMBINING BALANCE SHEET****NONMAJOR GOVERNMENTAL FUNDS****AUGUST 31, 2011**

| Data Control Codes | | Special Revenue Funds | Debt Service Fund | Total Nonmajor Governmental Funds (See Exhibit C-1) |
|---------------------------|--|-----------------------------|-------------------------|---|
| ASSETS: | | | | |
| 1110 | Cash and Cash Equivalents | \$ (84,390) | \$ 131,515 | \$ 47,125 |
| 1225 | Taxes Receivable, Net | -- | 22,240 | 22,240 |
| 1240 | Due from Other Governments | 139,966 | -- | 139,966 |
| 1260 | Due from Other Funds | 660 | -- | 660 |
| 1290 | Other Receivables | 12 | -- | 12 |
| 1000 | Total Assets | \$ 56,248 | \$ 153,755 | \$ 210,003 |
| LIABILITIES: | | | | |
| Current Liabilities: | | | | |
| 2160 | Accrued Wages Payable | \$ 43,297 | \$ -- | \$ 43,297 |
| 2170 | Due to Other Funds | 6,130 | 3,184 | 9,314 |
| 2180 | Due to Other Governments | 4,712 | -- | 4,712 |
| 2300 | Unearned Revenue | 22 | 22,240 | 22,262 |
| 2000 | Total Liabilities | 54,161 | 25,424 | 79,585 |
| FUND BALANCES: | | | | |
| Restricted Fund Balances: | | | | |
| 3450 | Federal/State Funds Grant Restrictions | 2,087 | -- | 2,087 |
| 3480 | Retirement of Long-Term Debt | -- | 128,331 | 128,331 |
| 3000 | Total Fund Balances | 2,087 | 128,331 | 130,418 |
| 4000 | Total Liabilities and Fund Balances | \$ 56,248 | \$ 153,755 | \$ 210,003 |

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT

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

| Data Control Codes | Special Revenue Funds | Debt Service Fund | Total Nonmajor Governmental Funds (See Exhibit C-2) |
|---|-----------------------------|-------------------------|---|
| REVENUES: | | | |
| 5700 <i>Local and Intermediate Sources</i> | \$ 1,006 | \$ 297,123 | \$ 298,129 |
| 5800 <i>State Program Revenues</i> | 39,227 | 195,801 | 235,028 |
| 5900 <i>Federal Program Revenues</i> | 1,828,400 | -- | 1,828,400 |
| 5020 Total Revenues | <u>1,868,633</u> | <u>492,924</u> | <u>2,361,557</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| 0011 <i>Instruction</i> | 1,511,764 | -- | 1,511,764 |
| 0013 <i>Curriculum and Staff Development</i> | 139,276 | -- | 139,276 |
| 0021 <i>Instructional Leadership</i> | 187,395 | -- | 187,395 |
| 0031 <i>Guidance, Counseling, & Evaluation Services</i> | 19,148 | -- | 19,148 |
| 0035 <i>Food Service</i> | 9,011 | -- | 9,011 |
| 0051 <i>Plant Maintenance and Operations</i> | 4,518 | -- | 4,518 |
| 0071 <i>Principal on Long-term Debt</i> | -- | 220,000 | 220,000 |
| 0072 <i>Interest on Long-term Debt</i> | -- | 231,493 | 231,493 |
| 0073 <i>Bond Issuance Costs and Fees</i> | -- | 993 | 993 |
| 6030 Total Expenditures | <u>1,871,112</u> | <u>452,486</u> | <u>2,323,598</u> |
| 1100 Excess (Deficiency) of Revenues Over (Under) | | | |
| 1100 Expenditures | (2,479) | 40,438 | 37,959 |
| 1200 Net Change in Fund Balances | <u>(2,479)</u> | <u>40,438</u> | <u>37,959</u> |
| 0100 Fund Balances - Beginning | 4,566 | 87,893 | 92,459 |
| 3000 Fund Balances - Ending | <u>\$ 2,087</u> | <u>\$ 128,331</u> | <u>\$ 130,418</u> |

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

AUGUST 31, 2011

| Data Control Codes | | 211 ESEA Title I Improving Basic Programs | 224 IDEA-B Formula | 255 ESEA Title II Training & Recruiting | 265 21st Century Community Learning Centers |
|---------------------------|--|--|--------------------------|--|--|
| ASSETS: | | | | | |
| 1110 | Cash and Cash Equivalents | \$ (1,700) | \$ (13,038) | \$ (174) | \$ (7,196) |
| 1240 | Due from Other Governments | 19,647 | 16,510 | 7,862 | 10,021 |
| 1260 | Due from Other Funds | -- | -- | -- | -- |
| 1290 | Other Receivables | -- | -- | -- | 12 |
| 1000 | Total Assets | \$ 17,947 | \$ 3,472 | \$ 7,688 | \$ 2,837 |
| LIABILITIES: | | | | | |
| Current Liabilities: | | | | | |
| 2160 | Accrued Wages Payable | \$ 17,947 | \$ 3,472 | \$ 7,688 | \$ 2,837 |
| 2170 | Due to Other Funds | -- | -- | -- | -- |
| 2180 | Due to Other Governments | -- | -- | -- | -- |
| 2300 | Unearned Revenue | -- | -- | -- | -- |
| 2000 | Total Liabilities | 17,947 | 3,472 | 7,688 | 2,837 |
| FUND BALANCES: | | | | | |
| Restricted Fund Balances: | | | | | |
| 3450 | Federal/State Funds Grant Restrictions | -- | -- | -- | -- |
| 3000 | Total Fund Balances | -- | -- | -- | -- |
| 4000 | Total Liabilities and Fund Balances | \$ 17,947 | \$ 3,472 | \$ 7,688 | \$ 2,837 |

| 266 ARRA of 2009 Title XIV State Fiscal Stabilization | 274 GEAR UP | 279 Enhancing Education through Technology-ARRA | 283 IDEA - Part B Formula - ARRA | 285 ESEA Title 1 Part Improving Basic Programs - ARRA |
|--|----------------|--|--|--|
| \$ (16,965) | \$ (8,796) | \$ (20,197) | \$ (15,207) | \$ (1,946) |
| 28,318 | 8,136 | 20,197 | 15,207 | 2,985 |
| -- | 660 | -- | -- | -- |
| -- | -- | -- | -- | -- |
| <u>\$ 11,353</u> | <u>\$ --</u> | <u>\$ --</u> | <u>\$ --</u> | <u>\$ 1,039</u> |
| | | | | |
| \$ 11,353 | \$ -- | \$ -- | \$ -- | \$ -- |
| -- | -- | -- | -- | 1,039 |
| -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- |
| <u>11,353</u> | <u>--</u> | <u>--</u> | <u>--</u> | <u>1,039</u> |
| | | | | |
| -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- |
| <u>11,383</u> | <u>\$ --</u> | <u>\$ --</u> | <u>\$ --</u> | <u>\$ 1,039</u> |

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

AUGUST 31, 2011

| Data Control Codes | | 289 Distance Learning & Telemedicine Grant | 378 Distance Learning & Telemedicine Grant | 404 Student Success Initiative |
|---------------------------|--|---|---|---|
| ASSETS: | | | | |
| 1110 | Cash and Cash Equivalents | \$ -- | \$ -- | \$ (755) |
| 1240 | Due from Other Governments | 4,712 | 4,712 | 1,134 |
| 1260 | Due from Other Funds | -- | -- | -- |
| 1290 | Other Receivables | -- | -- | -- |
| 1000 | Total Assets | \$ 4,712 | \$ 4,712 | \$ 379 |
| LIABILITIES: | | | | |
| Current Liabilities: | | | | |
| 2160 | Accrued Wages Payable | \$ -- | \$ -- | \$ -- |
| 2170 | Due to Other Funds | 4,712 | -- | 379 |
| 2180 | Due to Other Governments | -- | 4,712 | -- |
| 2300 | Unearned Revenue | -- | -- | -- |
| 2000 | Total Liabilities | 4,712 | 4,712 | 379 |
| FUND BALANCES: | | | | |
| Restricted Fund Balances: | | | | |
| 3450 | Federal/State Funds Grant Restrictions | -- | -- | -- |
| 3000 | Total Fund Balances | -- | -- | -- |
| 4000 | Total Liabilities and Fund Balances | \$ 4,712 | \$ 4,712 | \$ 379 |

| 409 Texas High School Project | 429 Read To Read License Plates | 480 Wings II | Total Nonmajor Special Revenue Funds (See Exhibit H-1) |
|--|--|-----------------|---|
| \$ (525) | \$ 22 | \$ 2,087 | \$ (84,390) |
| 525 | -- | -- | 139,966 |
| -- | -- | -- | 660 |
| -- | -- | -- | 12 |
| <u>\$ --</u> | <u>\$ 22</u> | <u>\$ 2,087</u> | <u>\$ 56,248</u> |
| | | | |
| \$ -- | \$ -- | \$ -- | \$ 43,297 |
| -- | -- | -- | 6,130 |
| -- | -- | -- | 4,712 |
| -- | 22 | -- | 22 |
| <u>--</u> | <u>22</u> | <u>--</u> | <u>54,161</u> |
| | | | |
| -- | -- | 2,087 | 2,087 |
| -- | -- | 2,087 | 2,087 |
| <u>\$ --</u> | <u>\$ 22</u> | <u>\$ 2,087</u> | <u>\$ 56,248</u> |

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011

| Data Control Codes | 211 ESEA Title I Improving Basic Programs | 224 IDEA-B Formula | 242 Summer Feeding Program | 244 Career and Tech Basic Grant |
|---|--|--------------------------|-------------------------------------|--|
| REVENUES: | | | | |
| 5700 <i>Local and Intermediate Sources</i> | \$ -- | \$ -- | \$ 73 | \$ -- |
| 5800 <i>State Program Revenues</i> | -- | -- | -- | -- |
| 5900 <i>Federal Program Revenues</i> | 301,140 | 92,900 | 13,456 | 7,635 |
| 5020 <i>Total Revenues</i> | 301,140 | 92,900 | 13,529 | 7,635 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| 0011 <i>Instruction</i> | 289,808 | 91,300 | -- | 7,635 |
| 0013 <i>Curriculum and Staff Development</i> | 14,725 | -- | -- | -- |
| 0021 <i>Instructional Leadership</i> | (3,393) | -- | -- | -- |
| 0031 <i>Guidance, Counseling, & Evaluation Services</i> | -- | 1,600 | -- | -- |
| 0035 <i>Food Service</i> | -- | -- | 9,011 | -- |
| 0051 <i>Plant Maintenance and Operations</i> | -- | -- | 4,518 | -- |
| 6030 <i>Total Expenditures</i> | 301,140 | 92,900 | 13,529 | 7,635 |
| 1100 <i>Excess (Deficiency) of Revenues Over (Under)</i> | | | | |
| 1100 <i>Expenditures</i> | -- | -- | -- | -- |
| 1200 <i>Net Change in Fund Balances</i> | -- | -- | -- | -- |
| 0100 <i>Fund Balances - Beginning</i> | -- | -- | -- | -- |
| 3000 <i>Fund Balances - Ending</i> | \$ -- | \$ -- | \$ -- | \$ -- |

| 255 ESEA Title II Training & Recruiting | 265 21st Century Community Learning Centers | 266 ARRA of 2009 Title XIV State Fiscal Stabilization | 274 GEAR UP | 279 Enhancing Education through Technology-ARRA |
|--|--|--|----------------|--|
| \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |
| -- | -- | -- | -- | -- |
| 83,368 | 409,297 | 518,291 | 115,580 | 128,638 |
| <u>83,368</u> | <u>409,297</u> | <u>518,291</u> | <u>115,580</u> | <u>128,638</u> |
| 80,084 | 251,088 | 518,291 | 71,133 | 73,409 |
| 3,284 | 1,149 | -- | 44,447 | 55,229 |
| -- | 157,060 | -- | -- | -- |
| -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- |
| <u>83,368</u> | <u>409,297</u> | <u>518,291</u> | <u>115,580</u> | <u>128,638</u> |
| -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- |
| -- | -- | -- | -- | -- |
| <u>\$ --</u> | <u>\$ --</u> | <u>\$ --</u> | <u>\$ --</u> | <u>\$ --</u> |

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2011

| Data Control Codes | 283 IDEA - Part B Formula - ARRA | 285 ESEA Title 1 Part A Improving Basic Programs - ARRA | 404 Student Success Initiative |
|---|--|--|---|
| REVENUES: | | | |
| 5700 Local and Intermediate Sources | \$ -- | \$ -- | \$ -- |
| 5800 State Program Revenues | -- | -- | 8,251 |
| 5900 Federal Program Revenues | 106,133 | 51,962 | -- |
| 5020 Total Revenues | <u>106,133</u> | <u>51,962</u> | <u>8,251</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| 0011 Instruction | 86,902 | -- | 8,251 |
| 0013 Curriculum and Staff Development | 1,683 | 18,234 | -- |
| 0021 Instructional Leadership | -- | 33,728 | -- |
| 0031 Guidance, Counseling, & Evaluation Services | 17,548 | -- | -- |
| 0035 Food Service | -- | -- | -- |
| 0051 Plant Maintenance and Operations | -- | -- | -- |
| 6030 Total Expenditures | <u>106,133</u> | <u>51,962</u> | <u>8,251</u> |
| 1100 Excess (Deficiency) of Revenues Over (Under) | -- | -- | -- |
| 1100 Expenditures | -- | -- | -- |
| 1200 Net Change in Fund Balances | -- | -- | -- |
| 0100 Fund Balances - Beginning | -- | -- | -- |
| 3000 Fund Balances - Ending | <u>\$ --</u> | <u>\$ --</u> | <u>\$ --</u> |

| 409 Texas High School Project | 411 Technology Allotment | 480 Wings II | Total Nonmajor Special Revenue Funds (See Exhibit H-2) |
|--|--------------------------------|-----------------|---|
| \$ -- | \$ -- | \$ 933 | \$ 1,006 |
| 525 | 30,451 | -- | 39,227 |
| -- | -- | -- | 1,828,400 |
| <u>525</u> | <u>30,451</u> | <u>933</u> | <u>1,868,633</u> |
| -- | 30,451 | 3,412 | 1,511,764 |
| 525 | -- | -- | 139,276 |
| -- | -- | -- | 187,395 |
| -- | -- | -- | 19,148 |
| -- | -- | -- | 9,011 |
| -- | -- | -- | 4,518 |
| <u>525</u> | <u>30,451</u> | <u>3,412</u> | <u>1,871,112</u> |
| -- | -- | (2,479) | (2,479) |
| -- | -- | (2,479) | (2,479) |
| -- | -- | 4,566 | 4,566 |
| <u>\$ --</u> | <u>\$ --</u> | <u>\$ 2,087</u> | <u>\$ 2,087</u> |

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
ENTERPRISE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2011

EXHIBIT H-5

| Data Control Codes | | 1 | 2 | 3 |
|--------------------------|---|------------|------------|------------------------------------|
| | | Budget | Actual | Variance Positive (Negative) |
| | OPERATING REVENUES: | | | |
| 5700 | Local and Intermediate Sources | \$ 153,000 | \$ 137,733 | \$ (15,267) |
| 5800 | State Program Revenues | 5,000 | 3,833 | (1,167) |
| 5900 | Federal Program Revenues | -- | 11,976 | 11,976 |
| 5020 | Total Revenues | 158,000 | 153,542 | (4,458) |
| | OPERATING EXPENSES: | | | |
| 6100 | Payroll Costs | 278,702 | 233,325 | 45,377 |
| 6200 | Professional and Contracted Services | 10,650 | 13,584 | (2,934) |
| 6300 | Supplies and Materials | 219,000 | 269,656 | (50,656) |
| 6400 | Other Operating Costs | 2,713 | 5,777 | (3,064) |
| 6030 | Total Expenses | 511,065 | 522,342 | (11,277) |
| | Operating Income (Loss) | (353,065) | (368,800) | (15,735) |
| | NON-OPERATING REVENUES (EXPENSES): | | | |
| 7952 | National School Breakfast Program | 78,000 | 78,858 | 858 |
| 7953 | National School Lunch Program | 280,000 | 300,201 | 20,201 |
| 7954 | USDA Donated Commodities | -- | 35,611 | 35,611 |
| 8030 | Total Non-operating Revenues (Expenses) | 358,000 | 414,670 | 56,670 |
| 1300 | Change in Net Assets | 4,935 | 45,870 | 40,935 |
| 0100 | Total Net Assets - Beginning | 21,306 | 21,306 | -- |
| 3300 | Total Net Assets - Ending | \$ 26,241 | \$ 67,176 | \$ 40,935 |

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.

ODEM-EDROY 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 | | | |
| 2002 and Prior Years | \$ | Various | \$ | Various | \$ | Various |
| 2003 | | 1.50 | | .1103 | | 127,596,539 |
| 2004 | | 1.50 | | .1103 | | 134,175,312 |
| 2005 | | 1.50 | | .1103 | | 150,048,722 |
| 2006 | | 1.50 | | .1103 | | 165,225,471 |
| 2007 | | 1.37 | | .1303 | | 173,369,260 |
| 2008 | | 1.17 | | .123 | | 199,132,400 |
| 2009 | | 1.17 | | .1224 | | 227,398,836 |
| 2010 | | 1.17 | | .1224 | | 218,806,343 |
| 2011 (School Year Under Audit) | | 1.1209 | | .1056 | | 276,490,929 |

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 |
|--------------------------------------|---------------------------------------|----------------------------------|-----------------------------------|---------------------------------------|------------------------------------|
| \$ 183,666 | \$ -- | \$ 1,738 | \$ 257 | \$ (2,185) | \$ 179,486 |
| 16,507 | -- | 702 | 52 | (282) | 15,472 |
| 17,412 | -- | 400 | 29 | (282) | 16,701 |
| 22,215 | -- | 4,674 | 344 | (312) | 16,886 |
| 28,636 | -- | 5,589 | 411 | (1,737) | 20,898 |
| 44,845 | -- | 10,083 | 959 | 236 | 34,040 |
| 57,087 | -- | 15,321 | 1,611 | 253 | 40,409 |
| 88,128 | -- | 29,669 | 3,104 | 788 | 56,143 |
| 169,010 | -- | 78,349 | 8,196 | (275) | 82,191 |
| -- | 3,325,465 | 2,909,260 | 274,086 | 110 | 142,230 |
| <u>\$ 627,506</u> | <u>\$ 3,325,465</u> | <u>\$ 3,055,784</u> | <u>\$ 289,048</u> | <u>\$ (3,684)</u> | <u>\$ 604,454</u> |
| \$ -- | \$ -- | \$ -- | \$ -- | \$ -- | \$ -- |

ODEM-EDROY 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

| 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 | \$ -- | \$ -- | \$ 371,301 | \$ 153,134 | \$ -- | \$ -- | \$ 524,435 |
| 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 | -- | -- | 19,109 | -- | -- | -- | 19,109 |
| 6212 | Audit Services | -- | -- | -- | 7,350 | -- | -- | 7,350 |
| 6213 | Tax Appraisal and Collection | -- | 21,673 | -- | -- | -- | -- | 21,673 |
| 621X | Other Prof. Services | -- | -- | -- | 98,001 | -- | -- | 98,001 |
| 6220 | Tuition and Transfer Payments | -- | -- | -- | -- | -- | -- | -- |
| 6230 | Education Service Centers | 4,500 | -- | -- | -- | -- | -- | 4,500 |
| 6240 | Contr. Maint. and Repair | -- | -- | -- | -- | 123 | -- | 123 |
| 6250 | Utilities | -- | -- | -- | -- | -- | -- | -- |
| 6260 | Rentals | -- | -- | 3,767 | 5,812 | -- | -- | 9,579 |
| 6290 | Miscellaneous Contr. | 554 | -- | -- | 679 | -- | -- | 1,233 |
| 6310 | Operational Supplies, Materials | -- | -- | -- | -- | -- | -- | -- |
| 6320 | Textbooks and Reading | -- | -- | 338 | -- | -- | -- | 338 |
| 6330 | Testing Materials | -- | -- | -- | -- | -- | -- | -- |
| 63XX | Other Supplies, Materials | -- | -- | 6,869 | 17,603 | -- | 622 | 25,094 |
| 6410 | Travel, Subsistence, Stipends | 4,957 | -- | 1,747 | 677 | -- | -- | 7,381 |
| 6420 | Ins. and Bonding Costs | 5,800 | -- | -- | 1,950 | -- | -- | 7,750 |
| 6430 | Election Costs | 3,831 | -- | -- | -- | -- | -- | 3,831 |
| 6490 | Miscellaneous Operating | 9,626 | -- | 18,237 | 12,859 | -- | -- | 40,722 |
| 6500 | Debt Service | -- | -- | -- | -- | -- | -- | -- |
| 6600 | Capital Outlay | -- | -- | -- | -- | -- | -- | -- |

Total \$ 29,268 \$ 21,673 \$ 421,368 \$ 298,065 \$ 123 \$ 622 \$ 771,119

Total Expenditures for General and Special Revenue Funds (9) \$ 11,776,560

LESS: Deductions of Unallowable Costs

FISCAL YEAR

| | | |
|--|------|--------------|
| Total Capital Outlay (6600) | (10) | \$ -- |
| Total Debt & Lease (6500) | (11) | \$ 123,035 |
| Plant Maintenance (Function 51, 6100-6400) | (12) | \$ 1,694,532 |
| Food (Function 35, 6341 and 6499) | (13) | \$ 5,028 |
| Stipends (6413) | (14) | \$ -- |
| Column 4 (above) - Total Indirect Cost | | \$ 298,065 |

Subtotal 2,120,660

Net Allowed Direct Cost \$ 9,655,900

CUMULATIVE

| | | |
|---|------|---------------|
| Total Cost of Buildings Before Depreciation (1520) | (15) | \$ 14,625,714 |
| Historical Cost of Buildings over 50 years old | (16) | 1,206,525 |
| Amount of Federal Money in Building Cost (Net of #16) | (17) | |
| Total Cost of Furniture & Equipment Before Depreciation (1530 & 1540) | (18) | 2,808,700 |
| Historical Cost of Furniture & Equipment over 16 years old | (19) | 726,283 |
| Amount of Federal Money in Furniture & Equipment (Net of #19) | (20) | \$ -- |

(8) Note A - \$18,405 in Function 53 expenditures and no Function 99 expenditures are included in this report on administrative costs.

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

DEBT SERVICE FUND

BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED AUGUST 31, 2011

| Data Control Codes | | 1 | 2 | 3 Variance Positive (Negative) |
|--------------------------|--|------------|------------|---|
| | | Budget | Actual | |
| REVENUES: | | | | |
| 5700 | Local and Intermediate Sources | \$ 276,211 | \$ 297,123 | \$ 20,912 |
| 5800 | State Program Revenues | 177,982 | 195,801 | 17,819 |
| 5020 | Total Revenues | 454,193 | 492,924 | 38,731 |
| EXPENDITURES: | | | | |
| Debt Service: | | | | |
| 0071 | Principal on Long-Term Debt | 220,000 | 220,000 | -- |
| 0072 | Interest on Long-Term Debt | 231,494 | 231,493 | 1 |
| 0073 | Bond Issuance Costs and Fees | 7,999 | 993 | 7,006 |
| | Total Debt Service | 459,493 | 452,486 | 7,007 |
| 6030 | Total Expenditures | 459,493 | 452,486 | 7,007 |
| 1100 | Excess (Deficiency) of Revenues Over (Under) | | | |
| 1100 | Expenditures | (5,300) | 40,438 | 45,738 |
| 1200 | Net Change in Fund Balance | (5,300) | 40,438 | 45,738 |
| 0100 | Fund Balance - Beginning | 87,893 | 87,893 | -- |
| 3000 | Fund Balance - Ending | \$ 82,593 | \$ 128,331 | \$ 45,738 |

Gowland, Strealy, Morales & Company

A Professional Limited Liability Company
Certified Public Accountants

Tommy Strealy CPA
David Morales CPA
Jerry D. Spence CPA

Professional Associates & Senior Advisor:
Peggy Sidler CPA
Betty Morales CPA
Ryan Johnston
Erika M. Post
Thomas Withers
Greg Morales
Dudley Gowland CPA

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
Odem-Edroy Independent School District
One Owl Square
Odem, Texas 78370

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Odem-Edroy Independent School District as of and for the year ended August 31, 2011, which collectively comprise the Odem-Edroy Independent School District's basic financial statements and have issued our report thereon dated January 11, 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 Odem-Edroy 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 Odem-Edroy Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Odem-Edroy 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.

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Members of the American Institute and Texas Society of Certified Public Accountants

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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as item 2011-1, that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

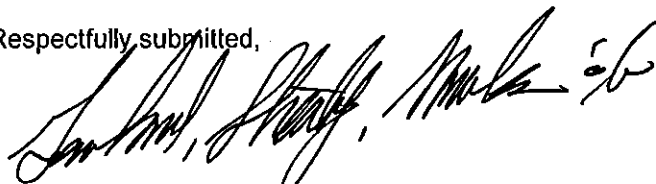
Compliance and Other Matters

As part of obtaining reasonable assurance about whether Odem-Edroy 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2011-2.

We noted certain matters that we reported to management of Odem-Edroy Independent School District in a separate letter dated January 11, 2012.

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, appearing to read "David L. Streatly", followed by a stylized flourish or mark.

Gowland, Streatly, Morales & Co., PLLC

January 11, 2012

Gowland, Streatly, Morales & Company

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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
Odem-Edroy Independent School District
One Owl Square
Odem, Texas 78370

Members of the Board of Trustees:

Compliance

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

In our opinion, Odem-Edroy 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.

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Internal Control Over Compliance

Management of Odem-Edroy 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 Odem-Edroy 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 Odem-Edroy Independent School District's internal control over compliance.


Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies.

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.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2011-3 to be significant deficiencies.

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,



Gowland, Streatly, Morales & Co., PLLC

January 11, 2012

ODEM-EDROY 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? X Yes 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? X Yes None Reported

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

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

Identification of major programs:

| <u>CFDA Number(s)</u> | <u>Name of Federal Program or Cluster</u> |
|-----------------------|---|
| Title I Cluster: | |
| 84.010 | ESEA Title I - Part A |
| 84.389 | ESEA Title I - Part A, SSA |
| Food Service Cluster: | |
| 10.553 | School Breakfast |
| 10.555 | School Lunch |
| 84.287 | Title IV Part B - 21st Century |
| 84.394 | ARRA Title XIV Fiscal Stabilization |

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

Auditee qualified as low-risk auditee? Yes X No

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

B. Financial Statement Findings

2011-1

Purchasing and Encumbrances

Condition: The budget was over spent in several function areas as noted in the notes to the financial statements. This was caused by year end adjustments that had to be made that created additional expenses.

Criteria: All balance sheet accounts should be reviewed at year end and adjustments made when necessary.

Effect: Budgets were over spent at the function level.

Recommendation: All balance sheet accounts should be reviewed during the year and adjustments made during the year when necessary

2011-2

Condition: The Campus and District Improvement plans did not include Supplemental Financial Resources.

Criteria: One of the components required in the Campus and District Improvement Plans is to indicate the actual dollar amounts for activities and/or strategies.

Cause: Staff was unaware of the compliance requirement. Also, there were no written policies or procedures for guidance in the preparation of the District and Campus Improvement Plans.

Recommendation: The District needs to update the Campus and District Plans to include supplemental financial resources. The Plans should include how the funds address activities and/or strategies.

C. Federal Award Findings and Questioned Costs

2011-3

Condition: The District needs stronger internal control over the reconciliation of accounts in the general ledger. Entries were made to correct accrued payroll and adjust receivable from state accounts.

Criteria: Balances should be reviewed, reconciled and adjusted at year end.

Cause: An adequate review of year end balances was not performed.

Effect or Potential Effect: Incorrect amounts could be reported to the State for reimbursement.

Recommendation: The District should review the general accounts during the year to make sure they are reconciled to Federal Reports and agree with subsidiary accounts.

ODEM-EDROY 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> |
|--|-----------------------|--|
| <p>2010-1</p> <p>Purchasing and Encumbrances</p> <p>Condition: The budget was over spent in several function areas as noted in the notes to the financial statements. During our testing of expenses we noted invoices that were dated prior to the purchase order date. This indicates purchases are being made without the required prior approval and the recording of timely encumbrances.</p> <p>Recommendation: We suggest the District emphasize to all personnel the importance of complying with Policy concerning purchasing. Purchases should not be made without the prior approval and recording of an encumbrance.</p> | Implemented | |
| <p>Federal Award Findings and Questioned Costs</p> <p>2010-2</p> <p>84.010 ESEA Title I - Part A</p> <p>Condition: Fourteen employees were selected from the January, 2010 Title I payroll. We examined the employees time and effort for compliance with OMB A-87, Cost Principles. We determined Time and Effort reports were completed for the Fall and Spring Semesters until November, 2010.</p> <p>Recommendation: Compliance training along with written policies and procedures should be implemented to to ensure compliance with time and effort documentation for Federal Program employees.</p> | Implemented | |

ODEM-EDROY INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2011

2011-1

Purchasing and Encumbrances

Recommendation: All balance sheet accounts should be reviewed during the year and adjustments made during the year when necessary.

Although the budget was amended as late as August 20, 2011, it was over spent in several function levels. The majority of the overspending was due to expensing accrued salaries which remained on the balance sheet after a conversion from a software system which accrued daily and continuously throughout the year to accruing only the days worked in August attributable to the next year. The business manager never had confidence in predicting the on-going accrued amounts. With the conversion in the software,

Johnny Johnson, Business Manager, will be responsible for the continued implementation of the corrective action.

2011-2

Recommendation: The District needs to update the Campus and District Plans to include supplemental financial resources. The Plans should include how the funds address activities and/or strategies.

The district has a new superintendent, who understands the need for budget amounts supported by state and federal funds to be reflected in the District and Campus Improvement Plans along with activities and/or strategies. The superintendent has a new format for the District and Campus Improvement Plans and it expected that the appropriate staff will be trained in the correct use, preparation and implementation of the District and Campus Improvement Plans.

Johnny Johnson, Business Manager, will be responsible for the continued implementation of the corrective action.

Federal Award Findings and Questioned Costs

2011-3

Recommendation: The District should review the general accounts during the year to make sure they are reconciled to Federal Reports and agree with subsidiary accounts.

The district is establishing new procedures which will require reconciliations of balance sheet accounts along with the reconciliation of bank statements on a monthly basis for all accounts including Federal programs.

Johnny Johnson, Business Manager, will be responsible for the continued implementation of the corrective action.

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

EXHIBIT K-1
Page 1 of 2

| (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 EDUCATION | | | |
| Passed Through State Department of Education: | | | |
| ESEA Title I Part A - Improving Basic Programs * | 84.010a | 1161010120590 | \$ 289,211 |
| ESEA Title I Part A - Improving Basic Programs * | 84.010a | 12610101205905 | 18,352 |
| Total CFDA Number 84.010a | | | <u>307,563</u> |
| IDEA-B Formula * | 84.027 | 116600012059066600 | 89,428 |
| IDEA-B Formula * | 84.027 | 126600012059056600 | 3,550 |
| Total CFDA Number 84.027 | | | <u>92,978</u> |
| Career and Technical - Basic Grant | 84.048 | 11420006178950 | 7,635 |
| Title IV Part B21st Century Community Learning Centers | 84.287 | 116950137110035 | 399,276 |
| 2 Title IV Part B21st Century Community Learning Centers | 84.287 | 126950177110049 | 10,021 |
| Total CFDA Number 84.287 | | | <u>409,297</u> |
| 1 GEAR UP | 84.334s | 115110017110004 | 115,580 |
| ESEA Title II Part A - Teacher & Principal Training & Recruiting | 84.367a | 11694501205905 | 77,294 |
| ESEA Title II Part A - Teacher & Principal Training & Recruiting | 84.367a | 12694501205905 | 7,861 |
| Total CFDA Number 84.367a | | | <u>85,155</u> |
| ARRA - Title II Part D Subpart 1-Enhancing Education Through Tech | 84.386 | 105530027110010 | 128,638 |
| ARRA - ESEA, Title I, Part A - Improving Basic Programs * | 84.389 | 10551001205905 | 53,058 |
| ARRA - IDEA-Part B Formula * | 84.391 | 10554001205906 | 108,398 |
| ARRA of 2009 Title XIV State Fiscal Stabilization Fund * | 84.394 | 11557001205905 | 529,362 |
| Total Passed Through State Department of Education | | | <u>1,837,664</u> |
| Total U. S. Department of Education | | | <u>1,837,664</u> |
| U. S. DEPARTMENT OF AGRICULTURE | | | |
| Passed Through State Department of Education: | | | |
| School Breakfast Program * | 10.553 | 205-905 | 78,858 |
| National School Lunch Program * | 10.555 | 205-905 | 300,201 |
| National School Lunch Program (Non-cash) * | 10.555 | 205-905 | 35,611 |
| Total CFDA Number 10.555 | | | <u>414,670</u> |
| Summer Food Service Program * | 10.559 | 205-905 | 13,456 |
| Total Passed Through State Department of Education | | | <u>428,126</u> |
| Passed Through Texas Department of Agriculture: | | | |
| 2010 NSLP Equipment Assistance Grant | 10.579 | 6TX310385 | 11,976 |
| Total U. S. Department of Agriculture | | | <u>440,102</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u>\$ 2,277,766</u> |

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

The accompanying notes are an integral part of this schedule.

ODEM-EDROY 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 Odem-Edroy 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.

| | | |
|--|----|------------------|
| TOTAL EXPENDITURES OF FEDERAL AWARDS | \$ | 2,277,766 |
| Federal Revenue not Included: | | |
| E-Rate | | 139,390 |
| School Health and Related Services | | 87,989 |
| Medicaid | | 3,460 |
| Federal Revenue Included in Enterprise Fund: | | |
| National School Breakfast and Lunch Program | | (414,670) |
| NSLP Equipment Assistance Grant | | (11,976) |
| TOTAL FEDERAL PROGRAM REVENUES EXHIBIT C-2 | \$ | <u>2,081,959</u> |

ODEM-EDROY 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? | \$ 456,761 |