

**SILSBEE INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED AUGUST 31, 2010**

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FOR THE YEAR ENDED AUGUST 31, 2010**

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**CERTIFICATE OF BOARD**

Silsbee Independent School District  
Name of School District

Hardin  
County

100-904  
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, 2010, at a meeting of the Board of Trustees of such school district on the 11 day of January, 2011.

B. J. Conway  
Signature of Board Secretary

John W. [Signature]  
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.)

Harold C. Graves, CPA  
J. Pat O'Neill, III, CPA



Michael W. Kiefer, CPA, CFE, CFF  
Troy W. Domingue, CPA  
Stanley "Chip" Majors, Jr., CPA, CIPP

January 6, 2011

## INDEPENDENT AUDITOR'S REPORT

### UNQUALIFIED OPINIONS ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND SUPPLEMENTARY INFORMATION INCLUDING THE SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Board of Trustees  
Silsbee Independent School District  
Silsbee, Texas 77656

#### Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Silsbee Independent School District (the District), as of and for the year ended August 31, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administration. Our responsibility is to express opinions on these financial statements based on our audit.

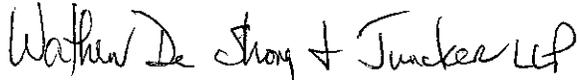
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and 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, each major fund, and the aggregate remaining fund information of Silsbee Independent School District, as of August 31, 2010, and the respective changes in financial position 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 6, 2011, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts 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.

The management's discussion and analysis and the budgetary comparison information on pages 4 through 10 and page 37 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. In addition, the TEA required 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. The Schedule of Expenditures of Federal Awards and the TEA required schedules (except for Exhibit J-3, The Fund Balance and Cash Flow Calculation Worksheet, which is marked UNAUDITED and on which we express no opinion) have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



**WATHEN, DeSHONG & JUNCKER, L.L.P.**  
Certified Public Accountants

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Silsbee 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 \$13,278,003 at August 31, 2010.
- During the year, the District's expenses were \$1,535,791 more than the \$28,572,255 generated in taxes and other revenues for governmental activities.
- The total cost of the District's programs was \$30,108,046.
- The General Fund reported a fund balance this year of \$4,987,094.
- 2009 F.I.R.S.T. Rating – Superior Achievement.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements themselves.

- 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-1**  
Required Components of  
Silsbee Independent School District's  
Annual Financial Report

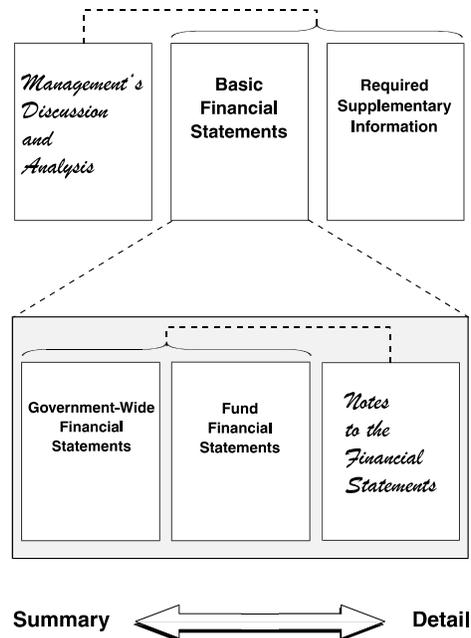


Figure A-2 summarizes the major features of the District’s financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of Management’s Discussion and Analysis explains the structure and contents of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

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

Type of Statements	Fund Statements		
	Government-wide	Governmental Funds	Fiduciary Funds
Scope	Entire District's government (except fiduciary funds)	The activities of the District that are not proprietary or fiduciary	Instances in which the District is the trustee or agent for someone else's resources
Required financial statements	Statement of net assets Statement of activities	Balance sheet Statement of revenues, expenditures & changes in fund balance	Statement of fiduciary net assets Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
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 short-term and long-term, the District'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

**Government-wide Statements**

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

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

- Over time, increases or decreases in the District’s net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District’s tax base.
- As of the 2010-11 fall PEIMS submission, the District employed 484 full-time positions, of which 289 were classroom teaching and paraprofessional positions. Total student enrollment was 2,872, with 2,856 being in membership. The District’s student population consisted of 27.8% minority students, 12.7% special education students, and 54.7% economically disadvantaged students.
- As of August 31, 2010, student enrollment was 2,790. With a declining student population, the District must continuously monitor its financial position, specifically in the areas of staffing and state revenue. The District is currently reducing staff positions through attrition. Three positions were eliminated through attrition at the beginning of the 2009-10 school year. Ten additional positions have been reduced through attrition for the 2010-11 school year.

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 two 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 on the subsequent page that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for certain funds. 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 \$13,278,003 at August 31, 2010. (See Table A-1).

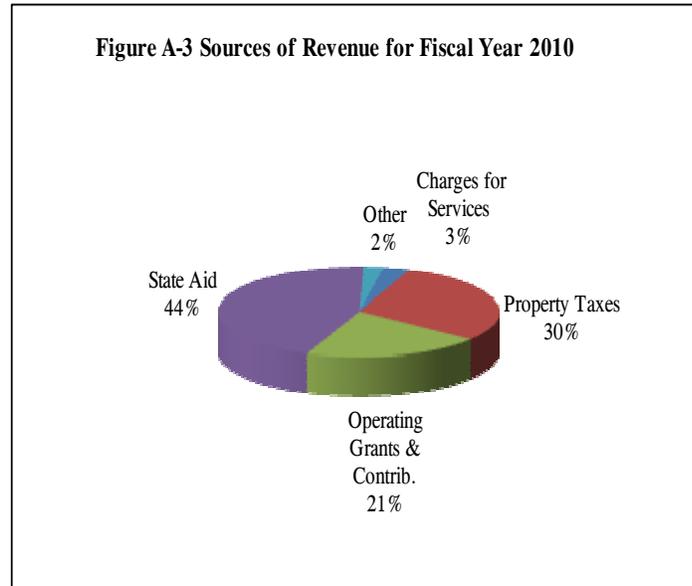
**Table A-1**  
**The District's Net Assets**

	Governmental Activities		Percentage Change
	2010	2009	
Current and Other Assets	\$ 8,520,279	\$ 10,737,213	-20.6%
Capital and Non-Current Assets	22,377,352	22,767,051	-1.7%
Total Assets	<u>30,897,631</u>	<u>33,504,264</u>	-7.8%
Current Liabilities	2,601,342	2,864,081	-9.2%
Long Term Liabilities	15,018,286	15,826,388	-5.1%
Total Liabilities	<u>17,619,628</u>	<u>18,690,469</u>	-5.7%
Net Assets:			
Invested in Capital Assets	6,102,187	5,714,346	6.8%
Restricted	875,097	1,018,681	-14.1%
Unrestricted	<u>6,300,719</u>	<u>8,080,768</u>	-22.0%
Total Net Assets	<u>\$ 13,278,003</u>	<u>\$ 14,813,795</u>	-10.4%

The District's restricted net assets consist of (\$6,969) for food service, \$83,920 for campus activities, \$770,790 for debt service and \$27,356 for capital projects.

**Changes in net assets.** The District's total revenues were \$28,572,255. A significant portion, 30%, of the District's revenue comes from taxes. (See Figure A-3). 44% comes from state aid – formula grants, while only 3% relates to charges for services.

The total cost of all programs and services was \$30,108,046; 71.02% of these costs are for instructional and student services.



**Governmental Activities**

Property tax rates remained at \$1.3178 per \$100 valuation. Of the 1.3178, \$1.17 is the Maintenance and Operations Rate, with \$0.1478 being the Interest and Sinking Rate. The total taxes levied increased by \$206,340 due to an increase in the appraised value. By State Law, the maximum Maintenance and Operations Tax Rate allowable without a Rollback Election is \$1.04. Silsbee Independent School District held a successful Rollback Election in November, 2007, authorizing the District to levy an additional \$0.13 above the \$1.04 limit, resulting in a Maintenance and Operations Rate of \$1.17.

Average daily attendance increased by 9 students from 2008/2009 to 2009/2010.

**Table A-2  
Changes in the District's Net Assets**

	Governmental Activities		Total % Change
	2010	2009	
<b>Revenues:</b>			
<u>Program Revenues</u>			
Charges for Services	\$ 870,170	\$ 875,365	-0.6%
Operating Grants and Contributions	5,896,159	5,105,631	15.5%
<u>General Revenues</u>			
Property Taxes	8,471,795	8,971,522	-5.6%
Investment Earnings	14,258	87,628	-83.7%
State Aid - formula	12,669,574	13,364,046	-5.2%
Other	650,299	2,793,539	-76.7%
<b>Total Revenues</b>	<u>28,572,255</u>	<u>31,197,731</u>	-8.4%
<b>Expenses:</b>			
Instruction and instructional related	16,596,080	16,549,112	0.3%
Instructional leadership/school administration	2,127,564	1,980,734	7.4%
Guidance, social work, health, transportation	1,989,778	1,994,174	-0.2%
Food services	1,437,268	1,323,825	8.6%
Extracurricular activities	1,360,792	1,385,603	-1.8%
General Administration	1,199,621	1,004,725	19.4%
Plant maintenance and security	4,314,662	3,693,034	16.8%
Data processing services	431,808	359,447	20.1%
Community Services	8,220	6,880	19.5%
Debt Service	642,253	761,329	-15.6%
<b>Total Expenses</b>	<u>30,108,046</u>	<u>29,058,863</u>	3.6%
Change in Net Assets	(1,535,791)	2,138,868	-171.8%
Beginning Net Assets	14,813,794	12,674,926	16.9%
Ending Net Assets	<u>\$ 13,278,003</u>	<u>\$ 14,813,794</u>	-10.4%

Table A-3 presents 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 \$30,108,646.
- The amount that our taxpayers paid for these activities through property taxes was \$8,471,795.
- Some of the cost was paid by those who directly benefited from the programs \$870,170, or
- By grants and contributions \$5,896,159.

**Table A-3  
Net Cost of Selected District Functions**

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2010	2009		2010	2009	
Instruction	\$ 15,864,296	\$ 15,749,921	0.7%	\$ 12,594,649	\$ 12,352,840	2.0%
School Leadership	1,625,132	1,621,289	0.2%	1,266,870	1,549,873	-18.3%
Student Transportation	845,075	795,852	6.2%	601,342	521,017	15.4%
Food Services	1,437,268	1,323,825	8.6%	97,039	82,880	17.1%
Extracurricular Activities	1,360,792	1,385,603	-1.8%	1,032,286	1,053,189	-2.0%
General Administration	1,199,621	1,004,725	19.4%	1,169,140	982,980	18.9%
Plant Maintenance and Operations	4,122,215	3,528,957	16.8%	3,989,542	3,142,437	27.0%
Interest on Long-term Debt	519,628	735,067	-29.3%	519,628	735,067	-29.3%

#### FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$28,537,469, a decrease of 8.6% from the preceding year. Local revenues decreased by \$2,135,162 due primarily to decreases in property tax revenue and insurance proceeds. State revenues decreased by \$1,327,333 due primarily to a decrease in state aid. Federal revenues increased by \$788,590 due primarily to an increase in Federal Revenues distributed by TEA.

#### General Fund Budgetary Highlights

- The District had multiple revisions to its budget during the fiscal year. Actual expenditures were \$2,650,775 below final budget amounts. The most significant variances were Facilities Maintenance and Operations under budget \$656,206 and Data Processing Services under budget \$340,108. Actual revenues were \$1,738,982 below budgeted amounts due primarily to local and state revenue budgeted amounts.
- The District has made significant effort over the past several years to bring the General Fund budgeted expenditures in line with supporting revenues. In order to maintain this balance, the District must continuously monitor its General Fund revenues and expenditures, revenues and expenditures in specific program areas, and District staffing levels.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2010, the District had invested \$41.5 million in capital assets, including land, equipment, buildings and vehicles. (See Table A-4). This amount represents a net increase (including additions and adjustments) of \$1,041,919 or 2.6% percent over last year.

**Table A-4**  
**District's Capital Assets**

	Governmental Activities		% Change
	2010	2009	
Land	\$ 643,811	\$ 643,812	0.0%
Buildings and Improvements	35,998,406	35,952,753	0.1%
Furniture and Equipment	4,809,977	3,813,710	26.1%
Totals at Historical Cost	41,452,194	40,410,275	2.6%
Total Accumulated Depreciation	(19,088,272)	(17,656,654)	8.1%
Net Capital Assets	<u>\$ 22,363,922</u>	<u>\$ 22,753,621</u>	-1.7%

### Long-Term Debt

At the end of 2010, the District had \$16 million in bonds outstanding as shown in Table A-5. The District's bonds presently carry a Moody's Investors Services rating of "Aaa" on its Permanent School Fund (PSF) guaranteed obligations and "Aa3" on its insured obligations. The District's underlying rating is "A3".

**Table A-5**  
**Long-Term Debt**

	Governmental Activities		% Change
	2010	2009	
Bonds payable	\$ 15,494,134	\$ 16,724,138	-7.4%
Premium -			
Capital appreciation bonds	291,950	203,304	43.6%
Accretion of discount			
Capital appreciation bonds	339,264	111,833	203.4%
Less unamortized discount	(176,763)	(108,872)	62.4%
Software debt	313,150	-	n/a
Total long-term debt	<u>\$ 16,261,735</u>	<u>\$ 16,930,403</u>	-3.9%

More detailed information about the District's debt is presented in the Notes to the Financial Statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

- Certified appraised value used for the 2011 budget preparation will decrease \$9,400,000, or 1.4% from 2010.
- General operating fund spending per student, exclusive of a major renovation program, increases in the 2011 budget from \$8,391 to \$8,632. This is a 1.03% increase from the preceding year.
- The District's 2011 refined average daily attendance is expected to be 2,700, which is the same level of average daily attendance attained in 2010.

These indicators were taken into account when adopting the General Fund budget for 2011. Amounts available for appropriation in the General Fund budget, exclusive of a major renovation program, are \$22.2 million, an increase of \$0.5 million from the final 2010 actual revenue of \$21.7 million.

Operating expenditures are budgeted at \$22.9 million, a decrease of 2.9% from the final 2010 actual expenditures of \$23.6 million.

If these estimates are realized, the District's budgetary undesignated General Fund fund balance is expected to decrease \$658,512 at the close of 2011.

The District has designated \$922,000 for major deferred maintenance and renovation programs for the fiscal year ended August 31, 2010. This program consists of a variety of district-wide and campus-specific projects including facility improvements and equipment replacements and technology enhancements.

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

This financial report is designed to provide our citizens, taxpayers, parents 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 Department.

## **BASIC FINANCIAL STATEMENTS**

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

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

Data Control Codes	Primary Government
	Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 570,118
1120 Current Investments	4,415,485
1220 Property Taxes Receivable (Delinquent)	1,576,000
1230 Allowance for Uncollectible Taxes	(394,000)
1240 Due from Other Governments	2,021,672
1290 Other Receivables, net	12,590
1300 Inventories	84,112
1420 Capitalized Bond and Other Debt Issuance Costs	234,302
Capital Assets:	
1510 Land	643,812
1520 Buildings, Net	19,834,483
1530 Furniture and Equipment, Net	1,885,627
1800 Restricted Assets	13,430
1000 Total Assets	30,897,631
<b>LIABILITIES</b>	
2110 Accounts Payable	184,748
2150 Payroll Deductions & Withholdings	26,478
2160 Accrued Wages Payable	783,706
2200 Accrued Expenses	80,470
2300 Deferred Revenues	269,061
2400 Payable from Restricted Assets	13,430
Noncurrent Liabilities	
2501 Due Within One Year	1,243,449
2502 Due in More Than One Year	15,018,286
2000 Total Liabilities	17,619,628
<b>NET ASSETS</b>	
3200 Invested in Capital Assets, Net of Related Debt	6,102,187
3820 Restricted for Federal and State Programs	(6,969)
3850 Restricted for Debt Service	770,790
3860 Restricted for Capital Projects	27,356
3870 Restricted for Campus Activities	83,920
3900 Unrestricted Net Assets	6,300,719
3000 Total Net Assets	\$ 13,278,003

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

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

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
		Expenses	3 Charges for Services	4 Operating Grants and Contributions
<b>Primary Government:</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
11 Instruction	\$ 15,864,296	\$ -	\$ 3,269,647	\$ (12,594,649)
12 Instructional Resources and Media Services	470,728	-	170,911	(299,817)
13 Curriculum and Staff Development	261,056	-	139,150	(121,906)
21 Instructional Leadership	502,432	-	135,110	(367,322)
23 School Leadership	1,625,132	-	358,262	(1,266,870)
31 Guidance, Counseling and Evaluation Services	855,349	-	413,332	(442,017)
32 Social Work Services	1,600	-	-	(1,600)
33 Health Services	287,754	-	179,605	(108,149)
34 Student (Pupil) Transportation	845,075	-	243,733	(601,342)
35 Food Services	1,437,268	549,718	790,511	(97,039)
36 Extracurricular Activities	1,360,792	299,835	28,671	(1,032,286)
41 General Administration	1,199,621	-	30,481	(1,169,140)
51 Plant Maintenance and Operations	4,122,215	20,617	112,056	(3,989,542)
52 Security and Monitoring Services	192,447	-	41	(192,406)
53 Data Processing Services	431,808	-	16,429	(415,379)
61 Community Services	8,220	-	8,220	-
72 Debt Service - Interest on Long Term Debt	519,628	-	-	(519,628)
73 Debt Service - Bond Issuance Cost and Fees	122,625	-	-	(122,625)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 30,108,046</u>	<u>\$ 870,170</u>	<u>\$ 5,896,159</u>	<u>(23,341,717)</u>
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			7,491,314
DT	Property Taxes, Levied for Debt Service			980,481
SF	State Aid - Formula Grants			12,669,574
GC	Grants and Contributions not Restricted			211,601
IE	Investment Earnings			14,258
MI	Miscellaneous Local and Intermediate Revenue			438,698
TR	Total General Revenues			<u>21,805,926</u>
CN	Change in Net Assets			(1,535,791)
NB	Net Assets--Beginning			14,813,794
NE	Net Assets--Ending			<u>\$ 13,278,003</u>

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

**GOVERNMENTAL FUND FINANCIAL STATEMENTS**

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

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds	
<b>ASSETS</b>				
1110	Cash and Cash Equivalents	\$ 1,217,809	\$ (647,691)	\$ 570,118
1120	Investments - Current	3,700,290	715,195	4,415,485
1220	Property Taxes - Delinquent	1,415,039	160,961	1,576,000
1230	Allowance for Uncollectible Taxes (Credit)	(353,760)	(40,240)	(394,000)
1240	Receivables from Other Governments	1,132,719	888,953	2,021,672
1260	Due from Other Funds	28,434	2,519	30,953
1290	Other Receivables	7,877	4,713	12,590
1300	Inventories	64,723	19,389	84,112
1800	Restricted Assets	-	13,430	13,430
1000	<b>Total Assets</b>	<b>\$ 7,213,131</b>	<b>\$ 1,117,229</b>	<b>\$ 8,330,360</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
2110	Accounts Payable	\$ 166,543	\$ 18,205	\$ 184,748
2150	Payroll Deductions and Withholdings Payable	26,478	-	26,478
2160	Accrued Wages Payable	753,659	30,047	783,706
2170	Due to Other Funds	-	30,953	30,953
2200	Accrued Expenditures	80,470	-	80,470
2300	Deferred Revenues	1,198,887	252,174	1,451,061
2400	Payable from Restricted Assets	-	13,430	13,430
2000	<b>Total Liabilities</b>	<b>2,226,037</b>	<b>344,809</b>	<b>2,570,846</b>
Fund Balances:				
Reserved For:				
3410	Investments in Inventory	64,723	10,218	74,941
3420	Retirement of Long Term Debt	-	650,069	650,069
3450	Food Service/Federal or State Funds	-	(17,187)	(17,187)
3490	Other Reserved/Restricted Fund Balance	-	129,320	129,320
Unreserved Designated For:				
3510	Construction	922,371	-	922,371
Unreserved and Undesignated:				
3600	Reported in the General Fund	4,000,000	-	4,000,000
3000	<b>Total Fund Balances</b>	<b>4,987,094</b>	<b>772,420</b>	<b>5,759,514</b>
4000	<b>Total Liabilities and Fund Balances</b>	<b>\$ 7,213,131</b>	<b>\$ 1,117,229</b>	<b>\$ 8,330,360</b>

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

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

<b>Total Fund Balances - Governmental Funds</b>	\$	5,759,514
1 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds.		22,363,922
2 Property taxes receivable are not available to pay for current period expenditures and, therefore, are deferred in the funds.		1,182,000
3 Bonds are not due and payable in the current period and, therefore, are not reported in the funds.		(16,438,498)
4 Deferred debt issuance costs were previously reported as reductions of other sources in the funds.		234,302
5 Discount on issuance of debt reported as reductions of other sources in the funds.		176,763
<b>19 Net Assets of Governmental Activities</b>	<b>\$</b>	<b>13,278,003</b>

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

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

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds	
<b>REVENUES:</b>				
5700	Total Local and Intermediate Sources	\$ 8,007,651	\$ 1,752,484	\$ 9,760,135
5800	State Program Revenues	13,641,534	884,514	14,526,048
5900	Federal Program Revenues	13,782	4,237,504	4,251,286
5020	Total Revenues	<u>21,662,967</u>	<u>6,874,502</u>	<u>28,537,469</u>
<b>EXPENDITURES:</b>				
Current:				
0011	Instruction	12,966,564	2,526,230	15,492,794
0012	Instructional Resources and Media Services	286,346	149,191	435,537
0013	Curriculum and Instructional Staff Development	94,586	137,332	231,918
0021	Instructional Leadership	380,131	117,037	497,168
0023	School Leadership	1,306,888	266,460	1,573,348
0031	Guidance, Counseling and Evaluation Services	469,652	364,598	834,250
0032	Social Work Services	1,600	-	1,600
0033	Health Services	107,109	162,876	269,985
0034	Student (Pupil) Transportation	916,054	-	916,054
0035	Food Services	12,088	1,376,092	1,388,180
0036	Extracurricular Activities	976,794	228,500	1,205,294
0041	General Administration	1,189,769	7,446	1,197,215
0051	Facilities Maintenance and Operations	4,010,468	15,351	4,025,819
0052	Security and Monitoring Services	306,342	-	306,342
0053	Data Processing Services	379,220	-	379,220
0061	Community Services	-	8,220	8,220
Debt Service:				
0071	Debt Service - Principal on Long Term Debt	125,000	1,105,000	1,230,000
0072	Debt Service - Interest on Long Term Debt	46,970	450,048	497,018
0073	Debt Service - Bond Issuance Cost and Fees	2,475	201,317	203,792
6030	Total Expenditures	<u>23,578,056</u>	<u>7,115,698</u>	<u>30,693,754</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,915,089)</u>	<u>(241,196)</u>	<u>(2,156,285)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
7911	Capital Related Debt Issued (Regular Bonds)	-	7,224,996	7,224,996
7915	Transfers In	100,653	-	100,653
7916	Premium or Discount on Issuance of Bonds	-	322,211	322,211
8911	Transfers Out (Use)	-	(100,653)	(100,653)
8949	Other (Uses)	-	(7,336,627)	(7,336,627)
7080	Total Other Financing Sources (Uses)	<u>100,653</u>	<u>109,927</u>	<u>210,580</u>
1200	Net Change in Fund Balances	(1,814,436)	(131,269)	(1,945,705)
0100	Fund Balance - September 1 (Beginning)	<u>6,801,530</u>	<u>903,689</u>	<u>7,705,219</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 4,987,094</u>	<u>\$ 772,420</u>	<u>\$ 5,759,514</u>

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

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

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	(1,945,705)
Government funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation.		(702,849)
Capital outlays	\$ 786,370	
Depreciation expense	(1,489,219)	
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		34,786
Prior year delinquent taxes collected in year ended August 31, 2010	(\$206,127)	
Current year uncollected levy net of allowance for uncollectible portion	240,913	
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This transaction has no effect on net assets.		1,230,000
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items		(36,223)
Accretion of capital appreciation bonds does not require the use of current financial resources and, therefore, is not reported as expenditure in the governmental funds.		(227,431)
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. The transaction has no effect on net assets.		111,631
<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b>(1,535,791)</b>

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

**FIDUCIARY FUND FINANCIAL STATEMENTS**

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

	Private Purpose Trust Funds	Agency Fund
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 23,622	\$ 150,460
Restricted Assets	262,384	-
Total Assets	<u>286,006</u>	<u>\$ 150,460</u>
<b>LIABILITIES</b>		
Due to Student Groups	-	\$ 150,460
Total Liabilities	<u>-</u>	<u>\$ 150,460</u>
<b>NET ASSETS</b>		
Unrestricted Net Assets	<u>286,006</u>	
Total Net Assets	<u>\$ 286,006</u>	

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

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

	Private Purpose Trust Funds
ADDITIONS:	
Local and Intermediate Sources	\$ 54,457
Total Additions	<u>54,457</u>
DEDUCTIONS:	
Professional and Contracted Services	42,787
Total Deductions	<u>42,787</u>
Change in Net Assets	11,670
Total Net Assets - September 1 (Beginning)	<u>274,336</u>
Total Net Assets - August 31 (Ending)	<u>\$ 286,006</u>

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

**NOTES TO THE FINANCIAL STATEMENTS**

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**A. REPORTING ENTITY**

The Board of 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 these funding source 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" and there are no component units included within this reporting entity.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *Program revenues* include 1) charges for services such as food service or extracurricular activities and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION**

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

SILSBEE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT  
PRESENTATION (CONTINUED)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Grant revenues and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental fund:

The **General Fund** is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board to implement its responsibilities.

Additionally, the District reports the following Fiduciary Fund types:

**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.

**Private-Purpose Trust Funds:** These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments not reported in other fiduciary fund types. The District's private-purpose trust funds represent scholarship funds being held in trust for students.

**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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Districts also have the *option* of following subsequent private-sector guidance for their business-type activities, subject to this same limitation. The District has elected not to follow subsequent private-sector guidance.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)**

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Amounts reported as *program revenues* include 1) charges for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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

**D. ASSETS, LIABILITIES, AND NET ASSETS**

*1. Cash and cash equivalents*

The District's cash and cash equivalents are considered to be cash on hand and demand deposits.

*2. Property taxes*

Property tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 25% of the outstanding property taxes at August 31, 2010.

*3. Inventories*

The consumption method is used to account for inventories of food products, school supplies and athletic equipment. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed. General Fund reported inventories are offset by a fund balance reserve indicating that they are unavailable as current expendable financial resources. The Food Service Special Revenue Fund commodity inventories received through the U.S. Department of Agriculture are offset with deferred revenue.

*4. Capital Assets*

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

SILSBEE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2010

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. ASSETS, LIABILITIES, AND NET ASSETS (CONTINUED)

4. *Capital Assets (Continued)*

Property, plant and equipment of the District is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	30
Building improvements	30
Equipment	5-18
Buses	10
Vehicles	10

5. *Compensated absences*

Vacations are to be taken within the same year they are earned. Any liability would be immaterial and none has been accrued in the accompanying financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Portions of the sick leave may accumulate but do not vest. Sick leave is paid only in the form of salary continuation while on medical leave. Silsbee Independent School District does not have a policy to pay any amounts when employees separate from service. Therefore, no liability for unused sick leave has been recorded in the accompanying financial statements.

6. *Long-term obligations*

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts and bond issuance costs which are reported as deferred charges are amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt services expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. Designations of fund balance are included in Unrestricted Net Assets in the government-wide Statement of Net Assets.

At August 31, 2010, Reserved Fund Balance includes reserves of (\$6,969) for Food Service, \$650,069 for Debt Service, \$27,356 for Capital Projects, \$64,723 for Inventory, \$83,920 for Campus Activities and \$18,044 for Special Revenue Funds.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2010**

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**D. ASSETS, LIABILITIES, AND NET ASSETS (CONTINUED)**

*8. Use of estimates*

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

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. BUDGETARY INFORMATION**

Formal budgetary accounting is employed for all required Governmental Fund Types, as outlined in TEA's FASRG module, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required Governmental Fund Types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, the Debt Service Fund and the Food Service Special Revenue Fund. The remaining special revenue funds adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting, which is consistent with generally accepted accounting principles. The budget is amended throughout the year by the Board of Trustees. Such amendments are reflected in the official minutes of the Board.

**B. REQUIRED INDIVIDUAL FUND DISCLOSURES**

For the year ended August 31, 2010, no General Fund or Food Service Special Revenue Fund functional expenditure categories exceeded budget. Debt Service Fund function 73, Bond Issuance Cost and Fees, exceeded budget by \$189,892. At August 31, 2010, the Food Service Special Revenue Fund had a deficit fund balance position of (\$6,969).

**C. DATA CONTROL CODES**

Data control codes refer to the account code structure prescribed by the Texas Education Agency, Financial Accountability System Resource Guide.

**D. HEALTH CARE**

The District contributes to the State sponsored healthcare program \$201 per month per employee (in addition to the \$75 per month that is provided by the State of Texas). Employees, at their option, contribute for dependent coverage through payroll withholdings.

The District does not provide any post-retirement health benefits to its employees.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2010**

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)**

**E. RISK MANAGEMENT AND PARTICIPATION IN RISK POOLS**

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Most of these risks are protected by insurance. There were no significant reductions in coverage in the past fiscal year, and there were no settlements or significant losses exceeding insurance coverage or state and federal reimbursement awards for each of the past three fiscal years.

The District participates in the following risk pools:

During the year ended August 31, 2010, the District met its statutory workers' compensation obligations as a self-funded member in the Workers' Compensation Solutions Program (WCS). The WCS was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The WCS program is authorized by Chapter 504 of the Texas Labor Code. All districts participating in the WCS execute Interlocal Agreements that define the responsibilities of the parties. The WCS provides statutory workers' compensation benefits to its members and their injured employees.

The estimated liability for open claims is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount. The liability is the undiscounted estimate of the actuary. Changes in the balances of claims liabilities during the most recent two years are as follow:

	2010	2009
Claims liabilities (including incurred but not reported), beginning of year	\$ 7,347	\$ 21,261
Incurred claims	111,573	7,939
Claims paid	(38,450)	(21,853)
Claims liabilities (including incurred but not reported), end of year	\$ 80,470	\$ 7,347

The WCS engages the services of an independent auditor to conduct a financial audit after the close of each plan year. The WCS Board of Directors approves this audit in March of the following year. The WCS audited financial statements are available in the WCS offices after the approval of the Board of Directors.

During the year ended August 31, 2010, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's employee benefits program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued each month until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for Unemployment Compensation pool members.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2010**

**NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (CONTINUED)**

**E. RISK MANAGEMENT AND PARTICIPATION IN RISK POOLS (CONTINUED)**

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

During the year ended August 31, 2010, the District participated in the Property Casualty Alliance of Texas's (PCAT) Property Casualty Program. The Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property Casualty Program. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves.

Based on information currently available for the year ended August 31, 2010, the District will have no additional liability beyond the contractual obligations for payment of contributions.

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

**NOTE 3. BUDGETARY LEGAL COMPLIANCE**

The Official Budget was prepared for adoption for the General Fund, Food Service Fund and Debt Service Fund prior to August 20, 2009. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the Board unless the intent is to increase the overall budget allocations. Control of appropriations by the Board is maintained within Fund Groups at the function code level and revenue object code level.

The Budget is formally adopted by the Board at a duly advertised public meeting in accordance with law prior to the expenditure of funds. The approved budget is filed with the Texas Education Agency (TEA) through the Public Education Information Management System.

Should any change in the approved budget be required, budget amendment requests are presented to the Board for consideration. Amendments are to be requested and approved before the fact and once approved are reflected in the official minutes. The Board approved the final amendment on August 30, 2010.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2010**

**NOTE 4. DEPOSITS AND INVESTMENTS**

Under Texas state law, a bank serving as the school depository must have a bond or in lieu thereof, deposited or pledged securities with the District or an independent third party agent, an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less any applicable FDIC insurance.

1. Cash Deposits: At August 31, 2010, the carrying amount of the District's cash, savings and time deposits was \$928,898. The bank balance was \$1,407,574. During 2009-2010, the District's combined deposits were fully insured by federal depository insurance or securities pledged to the District and held by the depository's agent 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 programs, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools (9) guaranteed investment contracts and (10) commercial paper.

A private purpose trust fund, the earnings of which are restricted to scholarship awards, holds publicly traded common stock donated to the District by the initiator of the scholarship fund.

3. Deposit and Investment Risks:

*Interest rate risk.* In accordance with its investing policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to one year or less.

*Credit risk.* For fiscal year 2010, the District invested in Texpool and Lone Star Investment Pool. Texpool is duly chartered and administered by the State Comptroller's Office. As of August 31, 2010, the District's investments in Texpool were rated AAAM by Standard & Poor's Investors Service. Lone Star Investment Pool is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Public, LLC formerly the Texas Association of School Boards Financial Services. The District's investments in Lone Star Investment Pool were rated AAAs1+ by Standard & Poor's Investors Service.

*Concentration of credit risk.* The District's investment policy does not limit an investment in any one issuer. The District monitors the need to diversify investments on a regular basis.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2010**

**NOTE 4. DEPOSITS AND INVESTMENTS (CONTINUED)**

3. Deposit and Investment Risks (Continued):

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of August 31, 2010, District deposits at the local depository were insured and collateralized with securities held by the depository’s agent and in the District’s name.

*Custodial credit risk – investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District is not exposed to custodial risk due to the fact that investments are insured or registered, or the investments are held by the District or its agent in the District’s name.

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

	<u>Maturity</u>	<u>Governmental Funds Fair Value</u>	<u>Private Purpose Trust Funds Fair Value</u>
Lone Star Investment Pool	N/A	\$ 664,350	\$ -
TexPool	N/A	3,751,135	-
Donated Publicly Traded Common Stock	N/A	-	90,229
		<u>\$ 4,415,485</u>	<u>\$ 90,229</u>

**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.

**Public Funds Investment Pools**

Public funds investment pools in Texas (“Pools”) are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the “Act”), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
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**NOTE 4. DEPOSITS AND INVESTMENTS (CONTINUED)**

**Public Funds Investment Pools (Continued)**

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

Fair values of TexPool are based on quoted market values of the underlying assets as provided by the Fund Sponsor, The State of Texas. Fair values of Lone Star Investment Pool Liquidity Fund are based on quoted market prices of the underlying assets as provided by the Fund Sponsor, Texas Association of School Boards, Inc. These investments are reported by the District at cost which approximates fair value. Governmental Accounting Standards Board Statement (GASB) No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools" allows the reporting of these investments at cost due to short-term maturities.

**NOTE 5. PROPERTY TAXES**

Property taxes are considered available when collected within the current period. The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll on August 1, 2009, upon which the levy for the 2009-2010 fiscal year was based, was \$657,020,640. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15% delinquent collection fees for attorney costs.

The tax rates assessed for the year ended August 31, 2010, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.17 and \$.1478 per \$100 valuation, respectively, for a total of \$1.3178 per \$ 100 valuation.

Current tax collections for the year ended August 31, 2010 were 95.5% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of August 31, 2010, property taxes receivable, net of estimated uncollectible taxes of \$353,760 and \$40,240, totaled \$1,061,279 and \$120,721 for the General and Debt Service Funds, respectively.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
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**NOTE 6. DUE FROM OTHER GOVERNMENTS**

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

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Total</u>
General	\$ 1,132,719	\$ -	\$ 1,132,719
Special Revenue	220,304	668,649	888,953
Total	<u>\$ 1,353,023</u>	<u>\$ 668,649</u>	<u>\$ 2,021,672</u>

**NOTE 7. CAPITAL ASSETS**

Capital assets activity for the year ended August 31, 2010 was as follows:

	<u>Balance September 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance August 31, 2010</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated				
Land	\$ 643,812	\$ -	\$ -	\$ 643,812
Capital assets, being depreciated				
Buildings and Improvements	35,952,753	45,653	-	35,998,406
Furniture and Equipment	3,813,710	1,053,867	(57,600)	4,809,977
Total capital assets being depreciated	<u>39,766,463</u>	<u>1,099,520</u>	<u>(57,600)</u>	<u>40,808,383</u>
Less accumulated depreciation for:				
Buildings and Improvements	(14,996,826)	(1,167,097)	-	(16,163,923)
Furniture and Equipment	(2,659,828)	(322,122)	57,600	(2,924,350)
Total accumulated depreciation	<u>(17,656,654)</u>	<u>(1,489,219)</u>	<u>57,600</u>	<u>(19,088,273)</u>
Total capital assets being depreciated, net	<u>22,109,809</u>	<u>(389,699)</u>	<u>-</u>	<u>21,720,110</u>
Governmental activities capital assets, net	<u>\$22,753,621</u>	<u>\$ (389,699)</u>	<u>\$ -</u>	<u>\$ 22,363,922</u>

SILSBEE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
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**NOTE 7. CAPITAL ASSETS (CONTINUED)**

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

**Governmental activities:**

11	Instruction	\$	627,078
12	Library & Media		55,191
13	Curriculum		29,138
21	Instructional Development		5,264
23	Campus Administration		51,784
31	Counselor		21,099
33	Health Services		17,769
34	Transportation		60,276
35	Food Services		49,088
36	Athletics & Co-Curricular		241,577
41	General Administration		2,406
51	Maintenance		232,169
52	Security and Monitoring Services		13,803
53	Data Processing		82,577

Total depreciation expense-governmental activities \$ 1,489,219

**NOTE 8. RETIREMENT PLAN**

**Plan Description.** Silsbee Independent School 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 legislative 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 writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
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**NOTE 8. RETIREMENT PLAN (CONTINUED)**

**Funding Policy.** Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2010, 2009 and 2008, and a state contribution rate of 6.644% for fiscal year 2010 and 6.58% for fiscal years 2009 and 2008. 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 through August 2010. State contributions to TRS made on behalf of the Silsbee Independent School District's employees for the years ended August 31, 2010, 2009 and 2008 were \$900,549, \$870,855 and \$880,704, respectively. The Silsbee Independent School District paid additional state contributions for the years ended August 31, 2010, 2009 and 2008 in the amount of \$259,127, \$248,499 and \$186,572, respectively, on the portion of the employees' salaries that exceeded the statutory minimum and on employees funded through Federal Programs.

**NOTE 9. SCHOOL DISTRICT RETIREE HEALTH PLAN**

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

**Funding Policy.** Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203 and 204 establish state, active employee and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2010, 2009 and 2008. Per Texas Insurance Code, Chapter 1575, the public school contributions may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2010, 2009 and 2008, the State's contributions to TRS-Care were \$176,371, \$170,115 and \$162,200, respectively, the active member contributions were \$114,641, \$110,575 and \$105,430, respectively and the school district's contributions were \$97,003, \$93,563 and \$89,210, respectively, which equaled the required contributions each year.

**Medicare Part D On-Behalf Payments.** The Medicare Prescription Drug Act of 2003, which became effective January 1, 2006, established prescription drug coverage of 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. These on-behalf payments for Silsbee Independent School District for the years August 31, 2010, 2009 and 2008 were \$46,452, \$41,108 and \$41,081, respectively.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
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**NOTE 10. LONG-TERM LIABILITIES**

The District's long-term liabilities consist of general obligation bonds, contractual obligation notes and software debt to provide funds for the construction of major capital facilities and software improvements. General obligation bonds and contractual obligation notes are direct obligations and pledge the full faith and credit of the District. The current requirements for general obligation bonds and contractual obligation notes principal and interest expenditures are accounted for in the Debt Service Fund. Debt associated with software improvements in the form of long-term accounts payable will be satisfied in the General Fund.

**Changes in long-term liabilities**

Long-term liability activity for the year ended August 31, 2010, was as follows:

Series	Interest Rate Payable	Amounts Original Issue	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
1999	4.00-4.80%	\$ 9,900,000	\$ 7,225,000	\$ -	\$ (7,225,000)	\$ -	\$ -
2000	5.77%	1,000,000	25,000	-	(25,000)	-	-
2000	5.30%	1,650,000	880,000	-	(125,000)	755,000	135,000
2008	2.5-4.0%	8,165,000	7,480,000	-	(530,000)	6,950,000	590,000
2008	4.0%	870,000	870,000	-	-	870,000	-
2008 capital appreciation							
bonds	3.20%	244,138	244,138	-	-	244,138	-
premiums		261,391	203,304	-	(58,087)	145,217	58,087
2009	2.0-4.0%	7,090,000	-	7,090,000	(550,000)	6,540,000	-
2009 capital appreciation							
bonds	1.60%	134,996	-	134,996	-	134,996	134,996
premiums		293,467	-	293,467	(146,734)	146,733	146,733
Total bond and contractual obligation payable - principal			16,927,442	7,518,463	(8,659,821)	15,786,084	1,064,816
Accretion of discount							
2008 capital appreciation bonds			111,833	76,121	-	187,954	-
2009 capital appreciation bonds			-	151,310	-	151,310	-
			111,833	227,431	-	339,264	-
Less 2008 unamortized discount			(108,872)	-	9,072	(99,800)	(9,072)
Less 2009 unamortized discount			-	(82,883)	5,920	(76,963)	(5,920)
			(108,872)	(82,883)	14,992	(176,763)	(14,992)
Software debt			-	339,982	(26,832)	313,150	193,625
Total governmental activities long-term liabilities			\$ 16,930,403	\$ 8,002,993	\$ (8,671,661)	\$ 16,261,735	\$ 1,243,449

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
YEAR ENDED AUGUST 31, 2010**

**NOTE 10. LONG-TERM LIABILITIES (CONTINUED)**

Annual debt service requirements to maturity are as follows:

<u>Year Ended August 31</u>	<u>Governmental Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 1,064,816	\$ 841,739
2012	1,258,087	511,881
2013	888,181	868,022
2014	1,270,000	459,911
2015	1,315,000	418,046
2016 - 2020	6,405,000	1,424,066
2021 - 2023	3,585,000	263,713
	<u>\$ 15,786,084</u>	<u>\$ 4,787,378</u>

**Debt Refunding**

In 2009, the District issued \$7,224,996 of general obligation refunding bonds to provide resources for the purpose of calling and retiring \$7,225,000 of general obligation bonds. As a result, the refunded bonds have been called and retired prior to August 31, 2010. The reacquisition price exceeded the net carrying amount of the old debt by \$111,627. The amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is equal to the life of the new debt issued. This refunding was undertaken to restructure and reduce total debt service payments over the next 13 years by \$504,229 and resulted in an economic gain of \$401,083.

**NOTE 11. LEASE OBLIGATIONS**

**Operating Leases**

The Silsbee Independent School District is obligated under operating (non-capitalized) leases for equipment. For the year ended August 31, 2010, lease expenditures were \$148,161 from the General Fund. The following is a schedule of minimum lease payments under non-cancelable operating leases as of August 31, 2010.

<u>Year Ended August 31</u>	<u>Amount</u>
2011	\$ 195,521
2012	181,745
2013	103,651
2014	73,807
2015	52,717
	<u>\$ 607,441</u>

**Capital Leases**

The Silsbee Independent School District was not obligated under any capital leases at August 31, 2010.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
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**NOTE 12. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES**

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$ 7,502,653	\$ -	\$ 947,134	\$ -	\$ 8,449,787
Food Sales	-	549,718	-	-	549,718
Insurance Proceeds	23,113	-	-	-	23,113
Investment Income	10,462	-	3,710	86	14,258
Penalties, interest and other tax related income	127,725	-	15,647	-	143,372
Co-curricular student activities	63,798	236,037	-	-	299,835
Other	279,900	152	-	-	280,052
<b>Total</b>	<b>\$ 8,007,651</b>	<b>\$ 785,907</b>	<b>\$ 966,491</b>	<b>\$ 86</b>	<b>\$ 9,760,135</b>

**NOTE 13. DEFERRED REVENUE**

Deferred revenue at year-end consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Total
Net Tax Revenue	\$ 1,061,279	\$ -	\$ 120,721	\$ 1,182,000
Exclusive Servicing Rights Contract	128,000	-	-	128,000
Football Season Ticket Sales	9,608	-	-	9,608
State Funded Special Revenue	-	368	-	368
National School Lunch Program	-	9,172	-	9,172
High School Allotment	-	104,380	-	104,380
Technology Allotment	-	12,659	-	12,659
Advanced Placement Incentives	-	4,874	-	4,874
<b>Total Deferred Revenue</b>	<b>\$ 1,198,887</b>	<b>\$ 131,453</b>	<b>\$ 120,721</b>	<b>\$ 1,451,061</b>

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
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**NOTE 14. INTERFUND RECEIVABLES AND PAYABLES**

Interfund balances at August 31, 2010, consisted of the following individual fund receivables and payables.

Fund	Receivable	Payable
General Fund:		
Debt Service Fund	\$ 10,372	\$ -
Capital Projects Fund	18,062	-
	28,434	-
Debt Service Fund:		
General Fund	-	10,372
Capital Projects Fund	-	2,519
	-	12,891
Capital Projects Fund:		
General Fund	-	18,062
Debt Service Fund	2,519	-
	2,519	18,062
Total	\$ 30,953	\$ 30,953

Balances are the result of Special Revenue Fund expenditures, property tax collection activity, and income allocations between the Capital Projects Fund and the Debt Service Fund.

**NOTE 15. SPECIAL REVENUE FUND REVENUE AND INTERFUND TRANSFERS**

As the result of Hurricane Ike, which hit the Texas and Louisiana Gulf Coast in September, 2008, the District received FEMA Awards totaling \$19,902 and State grants totaling \$80,751 during the fiscal year ended August 31, 2010. These funds are reported as federal and state revenue, repairs expenditures and transfers-out in the Special Revenue Funds and as repairs expenditures and transfers-in in the General Fund.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE FINANCIAL STATEMENTS  
AT AND FOR THE  
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**NOTE 16. LITIGATION AND CONTINGENCIES**

The District is a party to various actual and threatened legal actions none of which is believed by the administration to have a material effect on the financial condition of the District. Accordingly, no provision for potential losses or legal expenses has been recorded in the accompanying financial statements.

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

**REQUIRED SUPPLEMENTARY INFORMATION**

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 8,217,797	\$ 8,301,435	\$ 8,007,651	\$ (293,784)
5800	State Program Revenues	15,080,352	15,080,514	13,641,534	(1,438,980)
5900	Federal Program Revenues	20,000	20,000	13,782	(6,218)
5020	Total Revenues	23,318,149	23,401,949	21,662,967	(1,738,982)
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	12,619,381	13,226,361	12,966,564	259,797
0012	Instructional Resources and Media Services	428,731	440,251	286,346	153,905
0013	Curriculum and Instructional Staff Development	116,904	111,404	94,586	16,818
0021	Instructional Leadership	357,924	457,971	380,131	77,840
0023	School Leadership	1,623,600	1,622,542	1,306,888	315,654
0031	Guidance, Counseling and Evaluation Services	853,603	743,102	469,652	273,450
0032	Social Work Services	1,600	1,600	1,600	-
0033	Health Services	327,555	327,555	107,109	220,446
0034	Student (Pupil) Transportation	942,892	1,085,683	916,054	169,629
0035	Food Services	-	14,356	12,088	2,268
0036	Extracurricular Activities	922,486	1,024,937	976,794	48,143
0041	General Administration	1,096,805	1,271,695	1,189,769	81,926
0051	Facilities Maintenance and Operations	4,029,166	4,666,674	4,010,468	656,206
0052	Security and Monitoring Services	212,042	340,902	306,342	34,560
0053	Data Processing Services	361,188	719,328	379,220	340,108
Debt Service:					
0071	Debt Service - Principal on Long Term Debt	125,000	125,000	125,000	-
0072	Debt Service - Interest on Long Term Debt	46,970	46,970	46,970	-
0073	Debt Service - Bond Issuance Cost and Fees	4,500	2,500	2,475	25
6030	Total Expenditures	24,070,347	26,228,831	23,578,056	2,650,775
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(752,198)	(2,826,882)	(1,915,089)	911,793
<b>OTHER FINANCING SOURCES (USES):</b>					
7915	Transfers In	-	-	100,653	100,653
7080	Total Other Financing Sources (Uses)	-	-	100,653	100,653
1200	Net Change in Fund Balances	(752,198)	(2,826,882)	(1,814,436)	1,012,446
0100	Fund Balance - September 1 (Beginning)	6,801,530	6,801,530	6,801,530	-
3000	Fund Balance - August 31 (Ending)	\$ 6,049,332	\$ 3,974,648	\$ 4,987,094	\$ 1,012,446

**REQUIRED TEA SCHEDULES**

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

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2001 and prior years	Various	Various	\$ Various
2002	1.478600	0.141400	425,891,640
2003	1.500000	0.120000	426,683,960
2004	1.500000	0.167100	425,025,340
2005	1.500000	0.167100	517,118,850
2006	1.500000	0.167100	505,391,600
2007	1.480000	0.185500	516,333,410
2008	1.170000	0.167400	592,097,100
2009	1.170000	0.147800	672,678,555
2010 (School year under audit)	1.170000	0.147800	657,020,640
100 TOTALS			

(10) Beginning Balance 9/1/2009	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2010
\$ 527,881	\$ -	\$ 9,797	\$ 937	\$ (77,057)	\$ 440,090
80,752	-	3,138	300	(5,272)	72,042
77,202	-	5,135	411	(5,538)	66,118
87,606	-	5,320	593	(4,681)	77,012
97,541	-	8,032	895	(3,494)	85,120
117,267	-	14,645	1,631	(1,216)	99,775
143,721	-	18,876	2,366	(1,300)	121,179
156,901	-	25,505	3,649	(1,321)	126,426
240,746	-	60,815	7,683	(5,226)	167,022
-	8,658,218	7,340,051	927,230	(69,722)	321,215
<u>\$ 1,529,618</u>	<u>\$ 8,658,218</u>	<u>\$ 7,491,314</u>	<u>\$ 945,695</u>	<u>\$ (174,827)</u>	<u>\$ 1,576,000</u>

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

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

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collections	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 204,837	\$ 260,671	\$ 37,995	\$ -	\$ 503,503
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	184,175	-	650	-	-	-	184,825
6212	Audit Services	-	-	-	30,000	-	-	30,000
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	288,353	-	-	-	-	288,353
621X	Other Professional Services	-	-	-	8,646	-	-	8,646
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	1,500	-	-	700	-	-	2,200
6240	Contr. Maint. and Repair	-	-	-	-	28,245	-	28,245
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	3,208	600	-	22,291	-	-	26,099
6290	Miscellaneous Contr.	-	-	-	6,503	-	-	6,503
6320	Textbooks and Reading	-	-	928	4,279	-	-	5,207
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	38	-	1,608	33,781	4,276	-	39,703
6410	Travel, Subsistence, Stipends	19,012	-	6,865	9,438	1,921	-	37,236
6420	Ins. and Bonding Costs	-	-	-	-	-	-	-
6430	Election Costs	1,594	-	-	-	-	-	1,594
6490	Miscellaneous Operating	150	-	1,150	23,172	10,629	-	35,101
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 209,677	\$ 288,953	\$ 216,038	\$ 399,481	\$ 83,066	\$ -	\$ 1,197,215

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 28,937,392

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 759,342
Total Debt & Lease(6500)	(11)	174,445
Plant Maintenance (Function 51, 6100-6400)	(12)	3,904,134
Food (Function 35, 6341 and 6499)	(13)	569,231
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		399,481

SubTotal:

5,806,632

Net Allowed Direct Cost

\$ 23,130,759

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 35,998,406
Historical Cost of Building over 50 years old	(16)	\$ 1,573,156
Amount of Federal Money in Building Cost (Net of #16)	(17)	\$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18)	\$ 4,809,977
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 515,037
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ -

(8) NOTE A: No Function 53 expenditures are included in this report on administrative costs.  
 No Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

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

**UNAUDITED**

1	Total General Fund Balance as of 8/31/10 (Exhibit C-1 object 3000 for the General Fund Only)		\$ 4,987,094
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$ 64,723	
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund Only)	922,371	
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)	-	
5	Estimate of two month's average cash disbursements during the fiscal year.	3,929,676	
6	Estimate of delayed payments from state sources (58xx).	-	
7	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount.	-	
8	Estimate of delayed payments from federal sources (59xx)	-	
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	-	
10	Adjustment to meet Board Policy	-	
11	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9+10)		<u>4,916,770</u>
12	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 11)		<u>\$ 70,324</u>

Explanation of need for and/or projected use of net positive Undesignated Unreserved General Fund Fund Balance:

The net positive Undesignated Unreserved General Fund Fund Balance will be used to fund deferred maintenance and renovation needs of the District.

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 606,300	\$ 610,300	\$ 549,718	\$ (60,582)
5800 State Program Revenues	7,263	7,263	7,136	(127)
5900 Federal Program Revenues	639,539	818,539	783,375	(35,164)
5020 Total Revenues	1,253,102	1,436,102	1,340,229	(95,873)
EXPENDITURES:				
0035 Food Services	1,574,891	1,779,891	1,376,092	403,799
6030 Total Expenditures	1,574,891	1,779,891	1,376,092	403,799
1200 Net Change in Fund Balances	(321,789)	(343,789)	(35,863)	307,926
0100 Fund Balance - September 1 (Beginning)	28,894	28,894	28,894	-
3000 Fund Balance - August 31 (Ending)	\$ (292,895)	\$ (314,895)	\$ (6,969)	\$ 307,926

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 1,004,100	\$ 1,030,517	\$ 966,491	\$ (64,026)
5800	State Program Revenues	377,737	458,221	458,221	-
5020	Total Revenues	1,381,837	1,488,739	1,424,712	(64,027)
EXPENDITURES:					
Debt Service:					
0071	Debt Service - Principal on Long Term Debt	905,000	1,105,000	1,105,000	-
0072	Debt Service - Interest on Long Term Debt	657,953	458,753	450,048	8,705
0073	Debt Service - Bond Issuance Cost and Fees	5,000	11,425	201,317	(189,892)
6030	Total Expenditures	1,567,953	1,575,178	1,756,365	(181,187)
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(186,116)	(86,439)	(331,653)	(245,214)
OTHER FINANCING SOURCES (USES):					
7911	Capital Related Debt Issued (Regular Bonds)	-	-	7,224,996	7,224,996
7916	Premium or Discount on Issuance of Bonds	-	-	322,211	322,211
8949	Other (Uses)	-	-	(7,336,627)	(7,336,627)
7080	Total Other Financing Sources (Uses)	-	-	210,580	210,580
1200	Net Change in Fund Balances	(186,116)	(86,439)	(121,073)	(34,634)
0100	Fund Balance - September 1 (Beginning)	771,142	771,142	771,142	-
3000	Fund Balance - August 31 (Ending)	\$ 585,026	\$ 684,703	\$ 650,069	\$ (34,634)

**FEDERAL AWARDS SECTION**

Harold C. Graves, CPA  
J. Pat O'Neill, III, CPA

Wathen,  
DeShong  
& Juncker,  
L.L.P.  
Certified Public Accountants

Michael W. Kiefer, CPA, CFE, CFF  
Troy W. Domingue, CPA  
Stanley "Chip" Majors, Jr., CPA.CITP

January 6, 2011

**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  
Silsbee Independent School District  
Silsbee, Texas 77625

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Silsbee Independent School District as of and for the year ended August 31, 2010, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Silsbee Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Silsbee Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Silsbee 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 combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings and Responses as items 10-1, 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 Silsbee Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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



**WATHEN, DeSHONG & JUNCKER, L.L.P.**

Certified Public Accountants

Harold C. Graves, CPA  
J. Pat O'Neill, III, CPA

Wathen,  
DeShong  
& Juncker,  
L.L.P.  
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Michael W. Kiefer, CPA, CFE, CFF  
Troy W. Domingue, CPA  
Stanley "Chip" Majors, Jr., CPA.CITP

January 6, 2011

### 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  
Silsbee Independent School District  
Silsbee, Texas 77625

Members of the Board:

#### Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB 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 Silsbee 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 Silsbee Independent School District's compliance with those requirements.

In our opinion, Silsbee Independent School District complied in all material respects, with the 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, 2010.

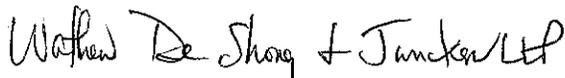
**Internal Control Over Compliance**

The management of Silsbee 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 the 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 Silsbee Independent School District's internal control over compliance.

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

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

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



**WATHEN, DeSHONG & JUNCKER, L.L.P.**  
Certified Public Accountants

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED AUGUST 31, 2010**

**Section I – Summary of Auditor’s Results**

**Financial Statements**

Type of auditor’s report issued: unqualified

Internal control over financial reporting:

- Material weakness identified?  yes  no
- Significant deficiency identified that is not considered to be a material weakness?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Internal control over major programs:

- Material weakness identified?  yes  no
- Significant deficiency identified that is not considered to be a material weakness?  yes  none reported

Type of auditor’s report issued on compliance for major programs: unqualified

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

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
	Special Education Cluster
84.027A	IDEA – B, Title VI, Formula
84.173A	IDEA – B, Title VI, Preschool
84.391A	IDEA – B, Title VI, Formula, ARRA
84.392A	IDEA – B, Title VI, Preschool, ARRA
84.010A	ESEA, Title I, Part A
84.389A	ESEA, Title I, Part A, ARRA
84.394A	State Fiscal Stabilization Fund, ARRA

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED AUGUST 31, 2010  
(CONTINUED)**

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**Section I – Summary of Auditor’s Results (Continued)**

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<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
	Early Childhood Intervention
84.393	Grants for Infants and Families with Disabilities, IDEA, Part C, Title VI – ARRA
93.778	Medicaid Title XIX – Medical Assistance Program, ARRA
93.778	Medicaid Title XIX – Medical Assistance Program
84.181	Grants for Infants and Families with Disabilities, IDEA, Part C, Title VI
84.027	Grants to States, IDEA, Part B, Title VI
93.558	Temporary Assistance for Needy Families

Dollar threshold used to distinguish between  
type A and type B programs:

\$ 300,000

Auditee qualified as low-risk auditee?

       yes   ✓   no

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED AUGUST 31, 2010  
(CONTINUED)**

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**Section II – Financial Statement Findings and Responses**

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10-1 Specific Requirements - The Texas Education Agency FASRG addresses Internal Control requirements for Texas public school districts in Section 1.5. The components of internal control are listed and defined. Monitoring is one of the five listed components of internal control.

The auditee, through the monitoring process as outlined in the FASRG, must be able to monitor activity and the recorded results of such activity to prevent financial statement misstatement.

The Committee of Sponsoring Organizations (COSO) of the Treadway Commission has defined Internal Control as “a process, effected by an entity’s board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reports; and compliance with laws and regulations.

Conditions - Monitoring normally includes management and supervising activities and is a by-product of managing the small to medium size government entity. Monitoring deficiencies resulted in a failure to recognize and correct multiple discrepancies between general ledger control accounts and detail subsidiary information on a timely basis.

Statement on Auditing Standards No. 115 issued by the Auditing Standards Board of the American Institute of Certified Public Accountants which was effective for financial statements for periods ending on or after December 15, 2009 defines levels of internal control effectiveness and provides guidance on evaluating the severity of deficiencies in internal control.

Questioned Costs - N/A

Effect - Failure to properly monitor contributed to a control environment that fostered extended periods in which general ledger financial reporting was not supported by subsidiary information and did not properly reflect the financial position of the various funds of the District.

Cause - In the Spring of 2010, the District began converting financial information from the existing information technology system to a new system. This conversion encompassed the complete financial and student accounting records of the District. The system to which the District was converting was a relatively new generation of a nationally recognized product and the service provider had not previously made such a conversion from the platform from which the District was converting.

Complications from the resultant conversion of District financial data combined with the considerable number of District personnel hours required for the conversion contributed to a lapse in the monitoring process as of and for the fiscal year ended August 31, 2010.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED AUGUST 31, 2010  
(CONTINUED)**

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**Section II – Financial Statement Findings and Responses (Continued)**

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10-1 (Continued)

Recommendation - We recommend the District administration re-establish and enhance previously existing monitoring procedures in the areas of general ledger preparation and adjustment and financial statement preparation.

Management's Response - The District's Assistant Superintendent of Finance, Ms. Kirsten Phillips will re-instate and expand the District's monitoring process. Particular emphasis will be given to the general ledger preparation process. Such procedures will include guidelines for timely completion of the reconciliation and posting process and the assignment of responsibility for general ledger and financial statement preparation and review functions.

In addition, subsequent to August 31, 2010, the District has employed a degreed accountant to assist Ms. Phillips with the day-to-day monitoring and control of financial operations and the preparation of resultant financial reports.

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**Section III – Federal Award Findings and Responses**

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-- NONE NOTED --

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR'S FINDINGS  
YEAR ENDED AUGUST 31, 2010**

**-- NONE NOTED --**

## SILSBEE INDEPENDENT SCHOOL DISTRICT

EXHIBIT K-1

Page 1 of 2

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2010**

<u>Federal Grantor/Pass Through Grantor/Program</u>	<u>(2) Federal CFDA Number</u>	<u>(2A) Pass-Through Entity Identifying Number</u>	<u>(3) Federal Expenditures</u>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed Through State Department of Education:			
ESEA, Title I, Part A, Improving Basic Programs*	84.010A	10610101100904	\$ 723,361
ESEA, Title I, Part A, Improving Basic Programs - ARRA*	84.389A	10551101100904	174,881
IDEA - B, Title VI, Formula*	84.027	106600011009046600	556,346
IDEA - B, Title VI, Formula - ARRA*	84.391A	105540011009046600	206,310
Vocational Education - Basic Grant	84.048	1042000610090405	39,032
IDEA - B, Title VI, Preschool*	84.173	106610011009046610	25,610
IDEA - B, Title VI, Preschool - ARRA*	84.392A	105550011009046610	15,056
ESEA, Title II, Part A - Teacher and Principal Training	84.367A	10694501100904	190,824
ESEA, Title II, Part D - Enhancing Education Through Tech	84.318X	10630001100904	7,749
ESEA, Title II, Part D - Enhancing Education Through Tech - ARRA	84.386A	10553001100904	7,460
Title XIV, State Fiscal Stabilization Fund - ARRA	84.394A	10557001100904	895,629
Total Passed Through State Department of Education			<u>2,842,258</u>
Passed Through State Department of Assistive and Rehabilitative Services:			
Special Education - Grants to States (IDEA - B, Title VI)	84.027	53802C7052	17,464
Special Education - Grants for Infants and Families with Disabilities (IDEA - C, Title VI)	84.181	53802C7052	25,109
Special Education - Grants for Infants and Families with Disabilities (IDEA - C, Title VI) - ARRA	84.393	53802C7052	<u>151,031</u>
Total Passed Through State Department of Assistive and Rehabilitative Services			<u>193,604</u>
Passed Through Lamar State College - Orange			
Career and Technical - Technical Preparation	84.243	2010-016	<u>3,017</u>
Total Passed Through Lamar State College - Orange			<u>3,017</u>
Total U.S. Department of Education			<u>3,038,879</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed Through State Department of Agriculture:			
School Breakfast Program*	10.553	71401001	169,423
National School Lunch Program*	10.555	71301001	<u>567,878</u>
Total Passed Through State Department of Agriculture			<u>737,301</u>
Passed Through State Department of Human Services:			
Commodity Supplemental Food Program	10.565	10004A	<u>46,074</u>
Total U.S. Department of Agriculture			<u>783,375</u>

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2010**

<u>Federal Grantor/Pass Through Grantor/Program</u>	<u>(2) Federal CFDA Number</u>	<u>(2A) Pass-Through Entity Identifying Number</u>	<u>(3) Federal Expenditures</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Passed Through State Department of Health Services:			
Medical Assistance Program (Medicaid, Title XIX)	93.778	53802C7052	90,413
Medical Assistance Program (Medicaid, Title XIX) - ARRA	93.778	53802C7052	18,599
Temporary Assistance for Needy Families (TANF)	93.558	53802C7052	<u>48,896</u>
Total Passed Through State Department of Health Services			<u>157,908</u>
Total U.S. Department of Health and Human Services			<u>157,908</u>
<b>U.S. DEPARTMENT OF HOMELAND SECURITY</b>			
Passed Through Texas Department of Public Safety			
Public Assistance Grant (FEMA)	97.036	1791-DR State:TX 199-14C07-00	<u>19,902</u>
Total U.S. Department of Homeland Security			<u>19,902</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 4,000,064</u></u>

\* Indicates clustered program under OMB Circular A-133

The accompanying notes are an integral part of this schedule.

**SILSBEE INDEPENDENT SCHOOL DISTRICT**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2010**

1. The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Silsbee 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 financial statements.
2. The District utilizes the fund types specified in the Texas Education Agency's Financial Accountability System Resource Guide.

Special Revenue Funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund. Generally, unused balances are returned to the grantor at the close of specified project periods.

3. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All federal grant funds were accounted for in the General Fund and Special Revenue Fund, components of the Governmental Fund type. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

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

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

4. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 90 days beyond the federal project period ending date or as specified in a program regulation, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Supplement – June 2010.
5. A reconciliation of Federal Revenue reported on Exhibit C-3 to Federal Revenue reported on the Schedule of Expenditures of Federal Awards (Exhibit K-1) follows:

Federal Revenue Reported on Exhibit K-1	\$ 4,000,064
Medicaid Revenue - General Fund	13,782
Medicaid Revenue - Special Revenue Fund	<u>237,440</u>
Federal Revenue Reported on Exhibit C-3	<u>\$ 4,251,286</u>