

**SPEARMAN ISD**  
**ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED**  
**AUGUST 31, 2010**

SPEARMAN ISD  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2010

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CERTIFICATE OF BOARD

Spearman ISD  
Name of School District

Hansford  
County

098904  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) X approved \_\_\_\_\_ disapproved for the year ended August 31, 2010 at a meeting of the Board of Trustees of such school district on the 10th day of January, 2011.

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

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

**UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS  
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER  
SUPPLEMENTARY INFORMATION INCLUDING THE  
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Independent Auditor's Report

Board of Trustees  
Spearman ISD  
403 East Eleventh Ave  
Spearman, Texas 79081

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

The Management's Discussion and Analysis on pages 6 through 11 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.

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

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Spearman Independent School District's basic financial statements.

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-5. Except for Exhibit J-3, (Cash flow and the Optimum Fund Balance Calculation Schedule), which is marked **UNAUDITED** and on which we express no opinion, these schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Amarillo, Texas  
January 6, 2011

Management's Discussion and Analysis  
Spearman ISD

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

In this section of the Annual Financial and Compliance Report, we, the managers of Spearman ISD, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2010. Please read it in conjunction with the independent auditors' report on page 4, and the District's Basic Financial Statements, which begin on page 13.

**FINANCIAL HIGHLIGHTS**

The District's net assets decreased by \$584 thousand as a result of this year's operations.

During the year, the District had expenses that were \$160 thousand more than the \$9.806 million generated in tax and other revenues for governmental programs. This compares to last year when expenses exceeded revenues by \$616 thousand.

Total cost of the District's entire program decreased approximately \$646 thousand.

The General Fund ended the year with a fund balance of \$3.582 million.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 13 and 14). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund Financial Statements (starting on page 15) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the Financial Statements (starting on page 26) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for non-major funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

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

### ***The Statement of Net Assets and the Statement of Activities***

The analysis of the District's overall financial condition and operations begins on page 13. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

In the Statement of Net Assets and the Statement of Activities, the District has one kind of activity:

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

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

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

The fund financial statements begin on page 15 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District has one kind of fund—governmental fund.

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

## The District as Trustee

### *Reporting the District's Fiduciary Responsibilities*

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Assets on page 23. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table 1) and changes in net assets (Table II) of the District's governmental and business-type activities.

Net assets of the District's governmental activities decreased from \$11.171 million to \$10.679 million. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$4.537 million at August 31, 2010. This decrease in governmental net assets was the result of the following factor. The District had increased expenses and cost savings over amounts budgeted.

**Table I**  
**Spearman ISD**

**NET ASSETS**  
in thousands

	Governmental Activities	
	2010	2009
Current and other assets	5,647	5,385
Capital assets	16,175	17,021
Total assets	21,822	22,406
Long-term liabilities	10,262	10,602
Other liabilities	881	633
Total liabilities	11,143	11,235
Net Assets:		
Invested in capital assets net of related debt	5,646	6,089
Restricted	496	402
Unrestricted	4,537	4,680
Total net assets	10,679	11,171

**Table II**  
**Spearman ISD**

**CHANGES IN NET ASSETS**  
in thousands

	Governmental Activities	
	2010	2009
Revenues:		
Program Revenues:		
Charges for Services	239	228
Operating grants and contributions	1,339	1,008
General Revenues:		
Maintenance and operations taxes	4,275	4,555
Debt service taxes	860	829
State aid – formula grants	3,201	-0-
Grants and Contributions not restricted to specific functions	1	3,261
Investment Earnings	23	40
Miscellaneous	(114)	77
Total Revenue	9,916	9,998
Expenses:		
Instruction, curriculum and media services	5,894	5,590
Instructional and school leadership	539	420
Student support services	517	529
Child nutrition	551	486
Co curricular activities	459	393
General administration	540	548
Plant maintenance, security & data processing	1,334	928
Community services	41	40
Debt services	472	487
Contracted Instructional	-0-	-0-
Facilities Acquisition & Construction	-0-	1
Payments to Fiscal Agent	61	64
Total Expenses	10,408	9,486
Increase in net assets before transfers and special items	(584)	512
Transfers	-0-	-0-
Special items	-0-	-0-
Net assets - Beginning of year	11,171	10,659
Prior Period Adjustment	92	-0-
Net assets - End of year	10,679	11,171

The District's property tax rates increased slightly from the prior year.

The cost of all governmental activities this year was \$10.408 million. However, as shown in the Statement of Activities on page 14, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$5.135 million because \$239 thousand of the costs were paid by those who directly benefited from the programs and \$1.339 million were paid by other governments and organizations that subsidized certain programs with grants and contributions.

#### THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 15 reported a combined fund balance of \$4.897million. Included in this year's total change in fund balance is a decrease of \$163 thousand in the District's General Fund. The primary reasons for the General Fund's decrease mirror the governmental activities analysis highlighted on page 14.

Over the course of the year, the Board of Trustees revised the District's budget eleven times. The amendment and supplemental appropriations were approved at the end of the year and reflect the actual beginning balances versus the amounts we estimated in August 2009.

The District's General Fund balance of \$3.582 million reported on page 15 differs from the General Fund's budgetary fund balance of \$3.369 million reported in the budgetary comparison schedule on page 22. This is principally due to cost savings and added revenues described above.

#### CAPITAL ASSET AND DEBT ADMINISTRATION

##### Capital Assets

At the end of 2010, the District had \$21.884 million invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance.

The District had additions in the current year in the amount of \$17 thousand. The District had no deletions in the current year.

The District's fiscal year 2011 capital budget calls for additional expenditures of \$15 thousand. More detailed information about the District's capital assets is presented in Note F to the financial statements.

##### DEBT

At year-end, the District had \$10.525 million in bonds and notes outstanding versus \$10.855 million last year- a decrease of 4 percent.

More detailed information about the District's long-term liabilities is presented in Note G and H to the financial statements

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

The District's elected and appointed officials considered many factors when setting the fiscal-year 2011 budget and tax rates. One of those factors is the local economy. The District's population growth remained steady during 1999-2010.

These indicators were taken into account when adopting the General Fund budget for 2011. Amounts available for appropriation in the General Fund budget is \$8.115 million, which is approximately the same as the 2010 budget. Property taxes, State per capita payments, and grant revenue account for 99% of the revenue. The District will continue to finance programs we currently offer.

If these estimates are realized, the District's budgetary General Fund balance is expected to remain stable by the close of 2011.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Spearman ISD, 403 East Eleventh Ave., Spearman, Texas 79081.

## BASIC FINANCIAL STATEMENTS

SPEARMAN 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	\$ 3,371,820
1120 Current Investments	1,935,417
1220 Property Taxes Receivable (Delinquent)	229,214
1230 Allowance for Uncollectible Taxes	(93,782)
1240 Due from Other Governments	81,188
1300 Inventories	6,960
1410 Deferred Expenses	42,452
1420 Capitalized Bond and Other Debt Issuance Costs	72,826
Capital Assets:	
1510 Land	271,277
1520 Buildings, Net	14,596,127
1530 Furniture and Equipment, Net	1,307,926
1000 Total Assets	21,821,425
<b>LIABILITIES</b>	
2110 Accounts Payable	12,274
2160 Accrued Wages Payable	316,153
2180 Due to Other Governments	212,319
Noncurrent Liabilities	
2501 Due Within One Year	340,000
2502 Due in More Than One Year	10,261,881
2000 Total Liabilities	11,142,627
<b>NET ASSETS</b>	
3200 Invested in Capital Assets, Net of Related Debt	5,646,275
3850 Restricted for Debt Service	112,326
3860 Restricted for Capital Projects	92,253
3880 Restricted for Scholarships	290,515
3900 Unrestricted Net Assets	4,537,428
3000 Total Net Assets	\$ 10,678,797

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

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

EXHIBIT B-1

Data	Program Revenues			Net (Expense)
Control	1	3	4	Revenue and
Codes	Expenses	Charges for	Operating	Changes in Net
		Services	Grants and	Assets
			Contributions	Primary Gov.
				Governmental
				Activities

**Primary Government:**

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 5,671,309	\$ 7,625	\$ 660,961	\$ (5,002,723)
12 Instructional Resources and Media Services	146,973	-	6,140	(140,833)
13 Curriculum and Staff Development	75,277	-	9,673	(65,604)
21 Instructional Leadership	2,500	-	-	(2,500)
23 School Leadership	536,956	-	23,931	(513,025)
31 Guidance, Counseling and Evaluation Services	212,901	-	10,596	(202,305)
33 Health Services	75,932	-	3,671	(72,261)
34 Student (Pupil) Transportation	228,373	-	4,810	(223,563)
35 Food Services	550,633	172,561	410,403	32,331
36 Extracurricular Activities	459,240	24,349	9,610	(425,281)
41 General Administration	540,038	3,715	19,587	(516,736)
51 Plant Maintenance and Operations	1,178,054	-	20,117	(1,157,937)
52 Security and Monitoring Services	6,177	-	-	(6,177)
53 Data Processing Services	149,956	-	26,567	(123,389)
61 Community Services	41,043	7,500	2,623	(30,920)
72 Debt Service - Interest on Long Term Debt	471,650	-	-	(471,650)
73 Debt Service - Bond Issuance Cost and Fees	431	-	-	(431)
81 Capital Outlay	-	23,720	130,026	153,746
93 Payments related to Shared Services Arrangements	60,708	-	-	(60,708)
<b>[TP] TOTAL PRIMARY GOVERNMENT:</b>	<b>\$ 10,408,151</b>	<b>\$ 239,470</b>	<b>\$ 1,338,715</b>	<b>(8,829,966)</b>

Data	General Revenues:		
Control			
Codes			
	Taxes:		
MT	Property Taxes, Levied for General Purposes		4,275,172
DT	Property Taxes, Levied for Debt Service		860,085
SF	State Aid - Formula Grants		3,200,781
GC	Grants and Contributions not Restricted		778
IE	Investment Earnings		22,536
MI	Miscellaneous Local and Intermediate Revenue		(113,620)
TR	Total General Revenues		8,245,732
CN	Change in Net Assets		(584,234)
NB	Net Assets--Beginning		11,170,781
PA	Prior Period Adjustment		92,250
NE	Net Assets--Ending		\$ 10,678,797

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

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

Data Control Codes	10 General Fund	Title XIV ARRA State Stabilization	Birdwell Permanent Trust Fund
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 2,135,952	\$ 11,621	\$ 1,110,057
1120 Investments - Current	1,935,417	-	-
1220 Property Taxes - Delinquent	201,391	-	-
1230 Allowance for Uncollectible Taxes (Credit)	(89,400)	-	-
1240 Receivables from Other Governments	-	80,630	-
1260 Due from Other Funds	558	-	-
1300 Inventories	6,960	-	-
1410 Deferred Expenditures	42,452	-	-
1000 Total Assets	<u>\$ 4,233,330</u>	<u>\$ 92,251</u>	<u>\$ 1,110,057</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
2110 Accounts Payable	\$ 12,274	\$ -	\$ -
2160 Accrued Wages Payable	314,292	-	-
2170 Due to Other Funds	-	92,251	-
2180 Due to Other Governments	212,319	-	-
2300 Deferred Revenues	111,991	-	-
2000 Total Liabilities	<u>650,876</u>	<u>92,251</u>	<u>-</u>
Fund Balances:			
Restricted Fund Balance:			
3410 Investments in Inventory	7,221	-	-
3420 Retirement of Long Term Debt	-	-	-
3430 Prepaid Items	40,136	-	-
Unspendable Fund Balance:			
3490 Other Reserved/Restricted Fund Balance	-	-	290,515
Committed Fund Balance:			
3510 Construction	1,191,000	-	-
Unassigned Fund Balance:			
3600 Reported in the General Fund	2,344,097	-	-
3620 Reported in Capital Projects Funds	-	-	-
3630 Reported in Permanent Funds	-	-	819,542
3000 Total Fund Balances	<u>3,582,454</u>	<u>-</u>	<u>1,110,057</u>
4000 Total Liabilities and Fund Balances	<u>\$ 4,233,330</u>	<u>\$ 92,251</u>	<u>\$ 1,110,057</u>

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

Other Funds	Total Governmental Funds
\$ 114,190	\$ 3,371,820
-	1,935,417
27,823	229,214
(4,382)	(93,782)
558	81,188
92,250	92,808
-	6,960
-	42,452
<u>\$ 230,439</u>	<u>\$ 5,666,077</u>
\$ -	\$ 12,274
1,861	316,153
558	92,809
-	212,319
23,441	135,432
<u>25,860</u>	<u>768,987</u>
-	7,221
112,326	112,326
-	40,136
-	290,515
-	1,191,000
-	2,344,097
92,253	92,253
-	819,542
<u>204,579</u>	<u>4,897,090</u>
<u>\$ 230,439</u>	<u>\$ 5,666,077</u>

SPEARMAN 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>	\$	4,897,090
<b>1</b> Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$21,866,889 and the accumulated depreciation was \$4,919,027. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets.		6,088,806
<b>2</b> Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2010 capital outlays and debt principal payments is to increase net assets.		347,231
<b>3</b> The 2010 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(789,762)
<b>4</b> Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net assets.		135,432
<b>19 Net Assets of Governmental Activities</b>	\$	10,678,797

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

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SPEARMAN 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	Title XIV ARRA State Stabilization	Birdwell Permanent Trust Fund
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ 4,419,096	\$ -	\$ 1,810
5800 State Program Revenues	3,556,499	-	-
5900 Federal Program Revenues	-	163,662	-
5020 Total Revenues	<u>7,975,595</u>	<u>163,662</u>	<u>1,810</u>
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	4,826,341	33,636	-
0012 Instructional Resources and Media Services	138,224	-	-
0013 Curriculum and Instructional Staff Development	64,848	-	-
0021 Instructional Leadership	2,500	-	-
0023 School Leadership	507,190	-	-
0031 Guidance, Counseling and Evaluation Services	211,623	-	-
0033 Health Services	75,027	-	-
0034 Student (Pupil) Transportation	136,025	-	-
0035 Food Services	10,155	-	-
0036 Extracurricular Activities	376,796	-	-
0041 General Administration	531,920	-	-
0051 Facilities Maintenance and Operations	904,004	-	-
0053 Data Processing Services	125,452	-	-
0061 Community Services	41,043	-	-
Debt Service:			
0071 Debt Service - Principal on Long Term Debt	-	-	-
0072 Debt Service - Interest on Long Term Debt	-	-	-
0073 Debt Service - Bond Issuance Cost and Fees	-	-	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	130,026	-
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	60,708	-	-
6030 Total Expenditures	<u>8,011,856</u>	<u>163,662</u>	<u>-</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(36,261)</u>	<u>-</u>	<u>1,810</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
7915 Transfers In	-	-	-
8911 Transfers Out (Use)	(126,509)	-	-
7080 Total Other Financing Sources (Uses)	<u>(126,509)</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balances	(162,770)	-	1,810
0100 Fund Balance - September 1 (Beginning)	<u>3,745,224</u>	<u>-</u>	<u>1,108,247</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 3,582,454</u>	<u>\$ -</u>	<u>\$ 1,110,057</u>

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

Other Funds	Total Governmental Funds
\$ 1,016,965	\$ 5,437,871
32,299	3,588,798
615,197	778,859
<u>1,664,461</u>	<u>9,805,528</u>
385,817	5,245,794
-	138,224
9,151	73,999
-	2,500
-	507,190
-	211,623
-	75,027
-	136,025
466,157	476,312
-	376,796
393	532,313
-	904,004
24,504	149,956
-	41,043
330,000	330,000
471,650	471,650
431	431
101,999	232,025
-	60,708
<u>1,790,102</u>	<u>9,965,620</u>
<u>(125,641)</u>	<u>(160,092)</u>
144,172	144,172
(17,663)	(144,172)
<u>126,509</u>	<u>-</u>
868	(160,092)
<u>203,711</u>	<u>5,057,182</u>
<u>\$ 204,579</u>	<u>\$ 4,897,090</u>

SPEARMAN 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>	\$	(160,092)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2010 capital outlays and debt principal payments is to increase net assets.		347,231
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.		(789,762)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net assets.		18,389
<b>Change in Net Assets of Governmental Activities</b>	<u>\$</u>	<u>(584,234)</u>

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

SPEARMAN 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	\$ 4,163,432	\$ 4,163,432	\$ 4,419,096	\$ 255,664
5800 State Program Revenues	3,953,820	3,953,820	3,556,499	(397,321)
5020 Total Revenues	8,117,252	8,117,252	7,975,595	(141,657)
<b>EXPENDITURES:</b>				
<b>Current:</b>				
0011 Instruction	4,993,278	4,993,278	4,826,341	166,937
0012 Instructional Resources and Media Services	140,277	140,277	138,224	2,053
0013 Curriculum and Instructional Staff Development	82,568	82,568	64,848	17,720
0021 Instructional Leadership	2,500	2,500	2,500	-
0023 School Leadership	513,074	513,074	507,190	5,884
0031 Guidance, Counseling and Evaluation Services	217,484	217,484	211,623	5,861
0033 Health Services	76,900	76,900	75,027	1,873
0034 Student (Pupil) Transportation	136,547	136,547	136,025	522
0035 Food Services	10,367	10,367	10,155	212
0036 Extracurricular Activities	432,476	432,476	376,796	55,680
0041 General Administration	542,286	542,286	531,920	10,366
0051 Facilities Maintenance and Operations	981,337	981,337	904,004	77,333
0053 Data Processing Services	135,627	135,627	125,452	10,175
0061 Community Services	41,045	41,045	41,043	2
<b>Intergovernmental:</b>				
0093 Payments to Fiscal Agent/Member Districts of SSA	61,146	61,146	60,708	438
6030 Total Expenditures	8,366,912	8,366,912	8,011,856	355,056
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(249,660)	(249,660)	(36,261)	213,399
<b>OTHER FINANCING SOURCES (USES):</b>				
8911 Transfers Out (Use)	(126,510)	(126,510)	(126,509)	1
7080 Total Other Financing Sources (Uses)	(126,510)	(126,510)	(126,509)	1
1200 Net Change in Fund Balances	(376,170)	(376,170)	(162,770)	213,400
0100 Fund Balance - September 1 (Beginning)	3,745,224	3,745,224	3,745,224	-
3000 Fund Balance - August 31 (Ending)	\$ 3,369,054	\$ 3,369,054	\$ 3,582,454	\$ 213,400

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

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

	Gibner Memorial Trust Fund	Agency Fund
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 1,505	\$ 107,717
Investments - Current	10,544	-
Accrued Interest	427	-
Total Assets	<u>12,476</u>	<u>\$ 107,717</u>
<b>LIABILITIES</b>		
Due to Student Groups	-	\$ 107,717
Total Liabilities	<u>-</u>	<u>\$ 107,717</u>
<b>NET ASSETS</b>		
Restricted for Scholarships	<u>12,476</u>	
Total Net Assets	<u>\$ 12,476</u>	

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

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

	Gibner Memorial Trust Fund
<hr/>	
ADDITIONS:	
Local and Intermediate Sources	\$ 1,102
Total Additions	1,102
DEDUCTIONS:	
Other Operating Costs	500
Total Deductions	500
Change in Net Assets	602
Total Net Assets - September 1 (Beginning)	11,874
Total Net Assets - August 31 (Ending)	\$ 12,476

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

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SPEARMAN ISD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Spearman ISD (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

**A. REPORTING ENTITY**

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

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

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the Spearman ISD nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

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

Interfund activities between governmental funds appear as due to/due forms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due forms on the government-wide Statement of Activities.

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

SPEARMAN ISD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

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

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as 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.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year-end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible to accrual concept, that is, when they are both measurable and available. The District considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

The Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

**D. FUND ACCOUNTING**

The District reports the following major governmental funds:

1. **The General Fund** – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

3. **Permanent Fund** – The District accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the District’s programs. The District’s major Permanent Fund is the Birdwell Trust Fund.

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

Governmental Funds:

1. **Debt Service Funds** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.
2. **Capital Projects Funds** – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Fiduciary Funds:

3. **Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District’s Agency Fund is the Student Activity Fund.
4. **Private Purpose Trust Fund** – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District’s Private Purpose Trust Fund is the Gibner Memorial Scholarship Fund.

#### **E. OTHER ACCOUNTING POLICIES**

1. For purposes of the statement of cash flows for proprietary and similar fund-types, the District considers highly liquid investments to be cash equivalents if they have maturity of three months or less when purchased.
2. The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

4. It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

SPEARMAN ISD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

- 5. Capital assets, which include land, buildings, furniture and equipment **are** reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The District defines capital assets 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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20
Vehicles	5
Equipment	10

- 6. The assets of the following funds are restricted:
  - A. Gibner Memorial Trust Fund                   \$ 12,476
  - B. Other – Birdwell Trust                         \$ 290,515
- 7. 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.
- 8. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.
- 9. The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide database for policy development and funding plans.

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. BUDGETARY DATA**

The Board of Trustees adopts an "appropriated budget" for the General Fund, Child Nutrition Program and Debt Service Fund. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit C-5, the Child Nutrition Program Budget report appears in Exhibit J-4 and the Debt Service Fund report is in Exhibit J-5.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

August 31, 2010	
<u>Fund Balance</u>	
Appropriated Budget Funds – Special Revenue Fund	\$ -0-
Nonappropriated Budget Funds	<u>-0-</u>
All Special Revenue Funds	\$ <u>-0-</u>

### **III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

#### **A. DEPOSITS AND INVESTMENTS**

##### **DISTRICT POLICIES AND LEGAL AND CONTRACTUAL PROVISIONS GOVERNING DEPOSITS**

Custodial Credit Risk for Deposits State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the district complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk The District's investment policy prohibits investing in foreign currency.

##### District Policies and Legal and Contractual Provisions Governing Investments

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

SPEARMAN ISD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

**Compliance with the Public Funds Investment Act**

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity 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, (9) and bid solicitation preferences for certificates of deposit.

**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 Act designed to promote liquidity and safety of principal, the Act require 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; (3) maintain market value of its underlying investment portfolio within one half of one percent of the value of its shares.

As of August 31, 2010, Spearman Independent School District had the following investments (dollar amounts are in thousands).

<u>Investment Type</u>	<b>Investment Maturities (in years)</b>				
	<b>Fair Value</b>	<b>Less than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>
Investment Pools	\$ 430	\$ 430	\$ -0-	\$ -0-	\$ -0-
CDARS	<u>1,505</u>	<u>1,505</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
Total	<u>\$ 1,935</u>	<u>\$ 1,935</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Additional policies and contractual provisions governing deposits and investments for Spearman Independent School District are specified below:

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in Texpool Participant Services and Lonestar Investment Pool. As of August 31, 2010, the district's investments in Texpool Participant Services and Lonestar Investment Pool were rated AAA by Standard & Poors.

Custodial Credit Risk for Investments To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the district and hand them over to the District or its designated agent. This includes securities in securities lending transactions. All of the securities are in the District's name and held by the District or its agent.

Concentration of Credit Risk The District has no investment policy concerning concentration of credit risk.

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires that the investment portfolio to have maturities of less than one year.

Foreign Currency Risk for Investments The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by prohibiting all investments in foreign currency

**B. PROPERTY TAXES**

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

**C. DELINQUENT TAXES RECEIVABLE**

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

**D. INTERFUND BALANCES AND TRANSFERS**

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

<b>Due to General Fund from:</b>		
Nonmajor Governmental Funds	\$	<u>558</u>
<b>Due to Nonmajor Governmental Funds from:</b>		
Special Revenue Fund	\$	<u>92,250</u>

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

<b>Transfers to Nonmajor Governmental Funds From:</b>		
General Fund	\$	<u>126,509</u>

These transfers were to supplement the National Breakfast and Lunch Fund and the High School Remodel Construction Fund.

**E. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at August 31, 2010, were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Total Receivables</u>
Governmental Activities:			
General Fund	\$ 201,391	\$ -0-	\$ 201,391
Major Special Revenue Fund	-0-	80,630	80,630
Non-major Government Funds	<u>27,823</u>	<u>558</u>	<u>28,381</u>
Total-Governmental Activities	<u>\$ 229,214</u>	<u>\$ 81,188</u>	<u>\$ 310,402</u>
 Amounts not scheduled for collection during the subsequent year	 <u>\$ 93,782</u>	 <u>\$ -0-</u>	 <u>\$ 93,782</u>

SPEARMAN ISD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

**E. DISAGGREGATION OF RECEIVABLES AND PAYABLES - Continued**

Payables at August 31, 2010, were as follows:

	<u>Accounts</u>	<u>Loans, Leases, &amp; Bonds Payable Current Year</u>	<u>Salaries And Benefits</u>	<u>Due To Other Governments</u>	<u>Total Payables</u>
<b>Governmental Activities:</b>					
General Fund	\$ 12,274	\$ -0-	\$ 314,292	\$ 212,319	\$ 538,885
Non-major Government Funds	<u>-0-</u>	<u>340,000</u>	<u>1,861</u>	<u>-0-</u>	<u>341,861</u>
 Total –Gov. Activities	 \$ <u>12,274</u>	 \$ <u>340,000</u>	 \$ <u>316,153</u>	 \$ <u>212,319</u>	 \$ <u>880,746</u>
 Amounts not scheduled for payment during the subsequent year	 \$ <u>-0-</u>	 \$ <u>-0-</u>	 \$ <u>-0-</u>	 \$ <u>-0-</u>	 \$ <u>-0-</u>

**F. CAPITAL ASSET ACTIVITY**

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

	<u>Beginning Balance</u>	<u>Primary Government</u>		<u>Ending Balance</u>
		<u>Additions</u>	<u>Retirements</u>	
<b>Governmental Activities:</b>				
Land	\$ 271,277	\$ -0-	\$ -0-	\$ 271,277
Buildings and Improvements	19,116,370	-0-	-0-	19,116,370
Furniture and Equipment	<u>2,479,242</u>	<u>17,231</u>	<u>-0-</u>	<u>2,496,473</u>
 Totals at Historic Cost	 \$ <u>21,866,889</u>	 \$ <u>17,231</u>	 \$ <u>-0-</u>	 \$ <u>21,884,120</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(3,982,196)	(538,046)	-0-	( 4,520,242)
Furniture and Equipment	<u>( 936,831)</u>	<u>(251,716)</u>	<u>-0-</u>	<u>( 1,188,547)</u>
 Total Accumulated Depreciation	 (4,919,027)	 (789,762)	 -0-	 ( 5,708,789)
 Governmental Activities Capital Assets, Net	 \$ <u>16,947,862</u>	 \$ <u>(772,531)</u>	 \$ <u>-0-</u>	 \$ <u>16,175,331</u>

**F. CAPITAL ASSET ACTIVITY - Continued**

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 425,515
Instructional Resources & Media Services	8,749
Curriculum & Staff Development	1,278
School Leadership	29,766
Guidance, Counseling and Evaluation Services	1,278
Health Services	905
Student (Pupil) Transportation	92,348
Food Services	91,552
Co Curricular/Extracurricular Activities	82,444
General Administration	7,725
Plant Maintenance and Operations	42,025
Security & Monitoring Services	<u>6,177</u>
 Total Depreciation Expense	 \$ <u>789,762</u>

**G. BONDS PAYABLE**

Bonded indebtedness of the District is reflected in the General Long-Term Debt Account Group. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

A summary of changes in general long-term debt for the year ended August 31, 2010 is as follows:

<u>DESCRIPTION</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issue</u>	<u>Interest Current Year</u>	<u>Payable Amounts Outstanding 9/1/09</u>	<u>Issued</u>	<u>Retired</u>	<u>Payable Amounts Outstanding 8/31/10</u>
Schoolhouse Bonds - Series 2005 – TEC-45	3.25%-5.00%	\$12,000,000	\$ <u>471,650</u>	\$ <u>10,855,000</u>	\$ <u>-0-</u>	\$ <u>330,000</u>	\$ <u>10,525,000</u>
 TOTAL			 \$ <u>471,650</u>	 \$ <u>10,855,000</u>	 \$ <u>-0-</u>	 \$ <u>330,000</u>	 \$ <u>10,525,000</u>

Debt service requirements are as follows:

Year Ended August 31,	General Obligations		
	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2011	\$ 340,000	\$ 459,713	\$ 799,713
2012	355,000	446,894	801,894
2013	365,000	433,394	798,394
2014	380,000	419,188	799,188
2015	395,000	403,925	798,925
2016-2020	2,245,000	1,753,600	3,998,600
2021-2025	2,855,000	1,148,563	4,003,563
2026-2030	<u>3,590,000</u>	<u>418,500</u>	<u>4,008,500</u>
Total	\$ <u>10,525,000</u>	\$ <u>5,483,777</u>	\$ <u>16,008,777</u>

SPEARMAN ISD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

**H. CHANGES IN LONG-TERM LIABILITIES**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental Activities:</b>					
Bonds and Notes Payable:					
Schoolhouse Bonds					
Series 2005-TEC-45	\$ <u>10,855,000</u>	\$ <u>-0-</u>	\$ <u>330,000</u>	\$ <u>10,525,000</u>	\$ <u>340,000</u>
Total Bonds and Notes Payable	\$ <u>10,855,000</u>	\$ <u>-0-</u>	\$ <u>330,000</u>	\$ <u>10,525,000</u>	\$ <u>340,000</u>
Total Governmental Activities Long-term Liabilities	\$ <u>10,855,000</u>	\$ <u>-0-</u>	\$ <u>330,000</u>	\$ <u>10,525,00</u>	\$ <u>340,000</u>

**I. DEFINED BENEFIT PENSION PLAN**

**Plan Description.** Spearman ISD contributes to the Teacher Retirement System of Texas (TRS), a cost sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8; Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. TRS issues a publicly available financial report that includes financial statements and required 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 8701, 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.

**Funding Policy.** State law provides for fiscal years 2008, 2009 and 2010 a state contribution rate of **6.0%** and a member contribution rate of **6.644%**. In certain instances the reporting district (I.S.D., college, university, or state agency) is required to make all or a portion of the state's **6.0%** contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (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 during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a 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 contributions to TRS made on behalf of Spearman ISD's employees for the years ended August 31, 2008, 2009, and 2010 were \$287,308, \$297,004, and \$354,940 respectively. Spearman ISD paid additional state contributions for the years ended August 31, 2008, 2009 and 2010 in the amount of \$57,436, \$66,210, and \$49,759 respectively, on the portion of the employees' salaries that exceeded the statutory minimum. State contributions to Medicare Part D made on behalf of Spearman ISD's employees for the years ended August 31, 2008, 2009, and 2010 were \$11,682, \$12,608, and \$15,359 respectively.

**J. DEFERRED REVENUE**

Deferred revenue at year-end consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Net Tax Revenue	\$ <u>111,991</u>	\$ <u>23,441</u>	\$ <u>135,432</u>
Total Deferred Revenue	\$ <u>111,991</u>	\$ <u>23,441</u>	\$ <u>135,432</u>

**K. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES**

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

	<u>General Fund</u>	<u>Permanent Trust Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Funds</u>	<u>Total</u>
Property Taxes	\$ 4,284,213	-0-	\$ -0-	\$ 837,665	-0-	\$ 5,121,878
Penalties, Interest and Other Tax-related Income	47,302	-0-	-0-	6,630	-0-	53,932
Investment Income	20,673	1,810	55	-0-	53	22,591
Food Sales	-0-	-0-	172,562	-0-	-0-	172,562
Co-curricular Student Activities	24,063	-0-	-0-	-0-	-0-	24,063
Other	<u>42,845</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>42,845</u>
Total	\$ <u>4,419,096</u>	\$ <u>1,810</u>	\$ <u>172,617</u>	\$ <u>844,295</u>	\$ <u>53</u>	\$ <u>5,437,871</u>

**L. DUE FROM STATE AGENCIES**

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 and are reported on the combined financial statements as Due from State Agencies.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Total</u>
General	\$ -0-	\$ -0-	\$ -0-
Major Special Revenue Fund	-0-	80,630	80,630
Special Revenue	<u>558</u>	<u>-0-</u>	<u>558</u>
Total	\$ <u>558</u>	\$ <u>80,630</u>	\$ <u>81,188</u>

SPEARMAN ISD

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2010

**M. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS**

The District participates in the following shared services arrangements:

1. The District participates in a multi-district special education cooperative. The fiscal agent for this cooperative is Perryton ISD. Although 21% of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Perryton ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Spearman ISD. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. The District contributed \$60,708 towards the expense of Special Education Cooperative.
2. The District is in a SSA with Perryton Independent School District to provide IDEA, Part B, Formula, Fund 224 and IDEA, Part B, Preschool, Fund 225. Perryton Independent School District is the fiscal agent of these shared service arrangements. The District received \$88,256 and \$8,467 for these funds respectively.
3. The District participates in a SSA with Region 16 Education Service Center to provide ESEA, Title I, Part C, Migratory Children Program, Fund 212. Region 16 ESC is the fiscal agent for this shared service arrangement. The District received \$22,621 during the year.

**N. PRIOR PERIOD ADJUSTMENT**

Net assets at the beginning of the year ending August 31, 2010 have been adjusted to correct an error made in the year ending August 31, 2009. The District recognized \$92,250 in additional revenue and had \$92,250 of additional expenditures in Fund 266, Title XIV, ARRA, State Stabilization for the year ending August 31, 2009. The effect of the restatement was to increase the beginning Net Assets by \$92,250 as reflected on Exhibit B-1 for the year ending August 31, 2010.

COMBINING STATEMENTS AND BUDGET COMPARISONS

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

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	224 IDEA - Part B Formula
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ -
1220 Property Taxes - Delinquent	-	-	-	-
1230 Allowance for Uncollectible Taxes (Credit)	-	-	-	-
1240 Receivables from Other Governments	-	-	-	-
1260 Due from Other Funds	-	-	-	-
1000 Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
2160 Accrued Wages Payable	\$ -	\$ -	\$ -	\$ -
2170 Due to Other Funds	-	-	-	-
2300 Deferred Revenues	-	-	-	-
2000 Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Restricted Fund Balance:				
3420 Retirement of Long Term Debt	-	-	-	-
Unassigned Fund Balance:				
3620 Reported in Capital Projects Funds	-	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	262 Title II, D Education Technology	270 ESEA VI, Pt B Rural & Low Income	279 Title II, D ARRA - Ed. Technology	285 ESEA I,A Improving Basic Program	404 Student Success Initiative
\$ -	\$ 1,861	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	558
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 1,861</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 558</u>
\$ -	\$ 1,861	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	558
-	-	-	-	-	-	-	-
-	1,861	-	-	-	-	-	558
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 1,861</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 558</u>

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

Data Control Codes	411 Technology Allotment	Total Nonmajor Special Revenue Funds	511 Debt Service Fund	696 Construction Fund HS Remodel	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ 1,861	\$ 112,326	\$ 3
1220	Property Taxes - Delinquent	-	-	27,823	-
1230	Allowance for Uncollectible Taxes (Credit)	-	-	(4,382)	-
1240	Receivables from Other Governments	-	558	-	-
1260	Due from Other Funds	-	-	-	66,725
1000	Total Assets	<u>\$ -</u>	<u>\$ 2,419</u>	<u>\$ 135,767</u>	<u>\$ 66,728</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
2160	Accrued Wages Payable	\$ -	\$ 1,861	\$ -	\$ -
2170	Due to Other Funds	-	558	-	-
2300	Deferred Revenues	-	-	23,441	-
2000	Total Liabilities	<u>-</u>	<u>2,419</u>	<u>23,441</u>	<u>-</u>
Fund Balances:					
Restricted Fund Balance:					
3420	Retirement of Long Term Debt	-	-	112,326	-
Unassigned Fund Balance:					
3620	Reported in Capital Projects Funds	-	-	-	66,728
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>112,326</u>	<u>66,728</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 2,419</u>	<u>\$ 135,767</u>	<u>\$ 66,728</u>

697 Construction Fund Ag Farm	699 Capital Projects Fund	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 3	\$ 114,190
-	-	-	27,823
-	-	-	(4,382)
-	-	-	558
25,525	-	92,250	92,250
<u>\$ 25,525</u>	<u>\$ -</u>	<u>\$ 92,253</u>	<u>\$ 230,439</u>
\$ -	\$ -	\$ -	\$ 1,861
-	-	-	558
-	-	-	23,441
<u>-</u>	<u>-</u>	<u>-</u>	<u>25,860</u>
-	-	-	112,326
25,525	-	92,253	92,253
<u>25,525</u>	<u>-</u>	<u>92,253</u>	<u>204,579</u>
<u>\$ 25,525</u>	<u>\$ -</u>	<u>\$ 92,253</u>	<u>\$ 230,439</u>

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

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	224 IDEA - Part B Formula
<b>REVENUES:</b>				
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -
5800	State Program Revenues	-	-	-
5900	Federal Program Revenues	2,515	152,983	22,621
5020	Total Revenues	<u>2,515</u>	<u>152,983</u>	<u>22,621</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
0011	Instruction	2,515	152,144	21,365
0013	Curriculum and Instructional Staff Development	-	839	1,256
0035	Food Services	-	-	-
0041	General Administration	-	-	-
0053	Data Processing Services	-	-	-
<b>Debt Service:</b>				
0071	Debt Service - Principal on Long Term Debt	-	-	-
0072	Debt Service - Interest on Long Term Debt	-	-	-
0073	Debt Service - Bond Issuance Cost and Fees	-	-	-
<b>Capital Outlay:</b>				
0081	Facilities Acquisition and Construction	-	-	-
6030	Total Expenditures	<u>2,515</u>	<u>152,983</u>	<u>22,621</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
7915	Transfers In	-	-	-
8911	Transfers Out (Use)	-	-	-
7080	Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
1200	Net Change in Fund Balance	-	-	-
0100	Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	262 Title II, D Education Technology	270 ESEA VI, Pt B Rural & Low Income	279 Title II, D ARRA - Ed. Technology	285 ESEA I,A Improving Basic Program	404 Student Success Initiative
\$ -	\$ 172,617	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	2,220	-	-	-	-	-	5,575
8,467	225,411	31,877	1,311	24,869	1,723	55,164	-
<u>8,467</u>	<u>400,248</u>	<u>31,877</u>	<u>1,311</u>	<u>24,869</u>	<u>1,723</u>	<u>55,164</u>	<u>5,575</u>
8,467	-	31,379	1,311	24,869	1,723	55,164	5,575
-	-	105	-	-	-	-	-
-	466,157	-	-	-	-	-	-
-	-	393	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>8,467</u>	<u>466,157</u>	<u>31,877</u>	<u>1,311</u>	<u>24,869</u>	<u>1,723</u>	<u>55,164</u>	<u>5,575</u>
-	(65,909)	-	-	-	-	-	-
-	65,909	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>65,909</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

Data Control Codes	411 Technology Allotment	Total Nonmajor Special Revenue Funds	511 Debt Service Fund	696 Construction Fund HS Remodel
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ 172,617	\$ 844,295	\$ 9
5800 State Program Revenues	24,504	32,299	-	-
5900 Federal Program Revenues	-	615,197	-	-
5020 Total Revenues	<u>24,504</u>	<u>820,113</u>	<u>844,295</u>	<u>9</u>
<b>EXPENDITURES:</b>				
<b>Current:</b>				
0011 Instruction	-	385,817	-	-
0013 Curriculum and Instructional Staff Development	-	9,151	-	-
0035 Food Services	-	466,157	-	-
0041 General Administration	-	393	-	-
0053 Data Processing Services	24,504	24,504	-	-
<b>Debt Service:</b>				
0071 Debt Service - Principal on Long Term Debt	-	-	330,000	-
0072 Debt Service - Interest on Long Term Debt	-	-	471,650	-
0073 Debt Service - Bond Issuance Cost and Fees	-	-	431	-
<b>Capital Outlay:</b>				
0081 Facilities Acquisition and Construction	-	-	-	79,863
6030 Total Expenditures	<u>24,504</u>	<u>886,022</u>	<u>802,081</u>	<u>79,863</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>(65,909)</u>	<u>42,214</u>	<u>(79,854)</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	-	65,909	-	78,263
8911 Transfers Out (Use)	-	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>65,909</u>	<u>-</u>	<u>78,263</u>
1200 Net Change in Fund Balance	-	-	42,214	(1,591)
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>70,112</u>	<u>68,319</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 112,326</u>	<u>\$ 66,728</u>

697 Construction Fund Ag Farm	699 Capital Projects Fund	Total Nonmajor Capital Project Funds	Total Nonmajor Governmental Funds
\$ 41	\$ 3	\$ 53	\$ 1,016,965
-	-	-	32,299
-	-	-	615,197
<u>41</u>	<u>3</u>	<u>53</u>	<u>1,664,461</u>
-	-	-	385,817
-	-	-	9,151
-	-	-	466,157
-	-	-	393
-	-	-	24,504
-	-	-	330,000
-	-	-	471,650
-	-	-	431
22,136	-	101,999	101,999
<u>22,136</u>	<u>-</u>	<u>101,999</u>	<u>1,790,102</u>
(22,095)	3	(101,946)	(125,641)
-	-	78,263	144,172
(10,510)	(7,153)	(17,663)	(17,663)
<u>(10,510)</u>	<u>(7,153)</u>	<u>60,600</u>	<u>126,509</u>
(32,605)	(7,150)	(41,346)	868
<u>58,130</u>	<u>7,150</u>	<u>133,599</u>	<u>203,711</u>
<u>\$ 25,525</u>	<u>\$ -</u>	<u>\$ 92,253</u>	<u>\$ 204,579</u>

SPEARMAN INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUND  
FOR THE YEAR ENDED AUGUST 31, 2010

	BALANCE SEPTEMBER 1 2009	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2010
<b>STUDENT ACTIVITY ACCOUNT</b>				
Assets:				
Cash and Temporary Investments	\$ 104,721	\$ 172,960	\$ 169,963	\$ 107,717
Liabilities:				
Due to Student Groups	\$ 104,721	\$ 172,960	\$ 169,963	\$ 107,717
<b>TOTAL AGENCY FUNDS</b>				
Assets:				
Cash and Temporary Investments	\$ 104,721	\$ 172,960	\$ 169,963	\$ 107,717
Liabilities:				
Due to Student Groups	\$ 104,721	\$ 172,960	\$ 169,963	\$ 107,717

## REQUIRED TEA SCHEDULES

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

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2001 and prior years	Various	Various	\$ 1,628,775,390
2002	1.260400	0.074200	278,260,645
2003	1.500000	0.087500	274,976,356
2004	1.500000	0.110900	216,589,685
2005	1.500000	0.000000	277,970,489
2006	1.500000	0.277300	288,293,070
2007	1.370100	0.208300	379,139,065
2008	1.040000	0.225700	370,003,344
2009	1.040000	0.189000	439,720,591
2010 (School year under audit)	1.040000	0.204000	406,694,688
1000 TOTALS			

(10) Beginning Balance 9/1/2009	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2010
\$ 39,045	\$ -	\$ 2,645	\$ -	\$ (1,313)	\$ 35,088
11,239	-	453	-	-	10,786
5,843	-	409	-	-	5,434
10,491	-	4,140	-	-	6,351
9,519	-	3,608	-	143	6,053
17,438	-	5,170	956	80	11,392
28,669	-	11,663	1,837	81	15,250
22,913	-	8,847	1,872	20	12,214
65,668	-	34,757	6,316	(161)	24,433
-	5,057,835	4,208,531	825,663	78,572	102,213
<u>\$ 210,825</u>	<u>\$ 5,057,835</u>	<u>\$ 4,280,224</u>	<u>\$ 836,644</u>	<u>\$ 77,423</u>	<u>\$ 229,214</u>

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

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

Account Number	Account Name	1	2	3	4	5	6	7
		(702) School Board	(703) Tax Collections	(701) Supt's Office	(750) Indirect Cost	(720) Direct Cost	(other) Miscellaneous	Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 163,914	\$ 173,479	\$ -	\$ -	\$ 337,393
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	3,518	-	-	-	3,518
6212	Audit Services	-	-	-	14,250	-	-	14,250
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	98,798	-	-	-	-	98,798
621X	Other Professional Services	-	-	39	-	-	-	39
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	615	3,103	-	-	3,718
6240	Contr. Maint. and Repair	-	-	930	-	-	-	930
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	2,085	2,085	-	-	4,170
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	-	-	8,340	9,320	-	-	17,660
6410	Travel, Subsistence, Stipends	7,221	-	10,514	8,772	-	-	26,507
6420	Ins. and Bonding Costs	-	-	8,559	1,043	-	-	9,602
6430	Election Costs	-	-	-	-	-	-	-
6490	Miscellaneous Operating	2,953	-	9,486	4,976	-	-	17,415
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	<b>TOTAL</b>	<b>\$ 10,174</b>	<b>\$ 98,798</b>	<b>\$ 208,000</b>	<b>\$ 217,028</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 534,000</b>

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 9,061,539

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 199,366
Total Debt & Lease(6500)	(11)	-
Plant Maintenance (Function 51, 6100-6400)	(12)	904,004
Food (Function 35, 6341 and 6499)	(13)	181,796
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		217,028

SubTotal: 1,502,195

Net Allowed Direct Cost \$ 7,559,344

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 19,116,370
Historical Cost of Building over 50 years old	(16)	\$ 140,191
Amount of Federal Money in Building Cost (Net of #16)	(17)	\$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18)	\$ 2,496,473
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ -
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ -

(8) NOTE A: \$1,688 in 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.

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

**UNAUDITED**

1	Total General Fund Balance as of 8/31/10 (Exhibit C-1 object 3000 for the General Fund Only)	\$	3,582,454
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$	47,357
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund Only)		1,191,000
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.		1,464,706
6	Estimate of delayed payments from state sources (58xx).		87,205
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>2,790,268</u>
12	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 11)	\$	<u><u>792,186</u></u>

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

Financial protection from anticipated revenue shortfalls due to the implementation of wealth equalization provisions in state law, declining student enrollment and pending legislative session.

SPEARMAN 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		
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ 172,562	\$ 172,617	\$ 172,617	\$ -
5800 State Program Revenues	2,220	2,220	2,220	-
5900 Federal Program Revenues	225,411	225,411	225,411	-
5020 Total Revenues	400,193	400,248	400,248	-
<b>EXPENDITURES:</b>				
0035 Food Services	466,157	466,157	466,157	-
6030 Total Expenditures	466,157	466,157	466,157	-
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(65,964)	(65,909)	(65,909)	-
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	65,909	65,909	65,909	-
7080 Total Other Financing Sources (Uses)	65,909	65,909	65,909	-
1200 Net Change in Fund Balances	(55)	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ (55)	\$ -	\$ -	\$ -

SPEARMAN 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	\$ 806,643	\$ 806,643	\$ 844,295	\$ 37,652
5020	Total Revenues	806,643	806,643	844,295	37,652
EXPENDITURES:					
Debt Service:					
0071	Debt Service - Principal on Long Term Debt	330,000	330,000	330,000	-
0072	Debt Service - Interest on Long Term Debt	471,674	471,674	471,650	24
0073	Debt Service - Bond Issuance Cost and Fees	-	-	431	(431)
6030	Total Expenditures	801,674	801,674	802,081	(407)
1200	Net Change in Fund Balances	4,969	4,969	42,214	37,245
0100	Fund Balance - September 1 (Beginning)	70,112	70,112	70,112	-
3000	Fund Balance - August 31 (Ending)	\$ 75,081	\$ 75,081	\$ 112,326	\$ 37,245

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FEDERAL AWARDS SECTION

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS***

Independent Auditor's Report

Board of Trustees  
Spearman ISD  
403 E. Eleventh Ave.  
Spearman, Texas 79081

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Spearman Independent School District (the District) as of and for the year ended August 31, 2010. These collectively comprise the District's basic financial statements. We have issued our report on them 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 Spearman 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 Spearman Independent School District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Spearman Independent School District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency or combination of significant deficiencies that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Spearman 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 for the information of the district's trustees, the audit committee, the administration, Texas Education Agency, federal awarding agencies and pass-through entities, and is not intended to be used and should not be used by anyone other than these specified parties.

Amarillo, Texas  
January 6, 2011

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

Independent Auditor's Report

Board of Trustees  
Spearman ISD  
403 E. Eleventh Ave.  
Spearman, Texas 79081

Members of the Board:

Compliance

We have audited the compliance of Spearman 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 are applicable to each of its major federal programs for the year ended August 31, 2010. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Spearman Independent School District's administrators. 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 Spearman 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 Spearman Independent School District's compliance with those requirements.

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

Internal Control Over Compliance

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

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to

administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency or a combination of significant deficiencies that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be 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.

#### Schedule of Expenditures of Federal Awards

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Spearman Independent School District as of and for the year ended August 31, 2010 and have issued our report thereon dated January 6, 2011. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended for the information and use of the District's trustees, the audit committee, the administration, Texas Education Agency, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Amarillo, Texas  
January 6, 2011

SPEARMAN ISD  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED AUGUST 31, 2010

<u>PROGRAM</u>	<u>DESCRIPTION</u>
Type of Report on Financial Statements	Unqualified.
Significant Deficiencies in Internal Control	None
Material Weakness Involving Significant Deficiencies in Internal Control	None
Noncompliance Material to the Financial Statements	None
Significant Deficiencies in Internal Control Over Major Programs	None
Material Weakness Involving in Significant Deficiencies in Internal Control Over Major Programs	None
Type of Report on Compliance with Major Programs	Unqualified.
Findings and Questioned Costs for Federal Awards as Defined in Section .510(a), OMB Circular A-133	None.
Low Risk Auditee Statements	The District was classified as a low-risk auditee in context of OMB Circular A-133
Major Federal Programs	National School Lunch & Breakfast Program
Dollar Threshold for Type A Programs	\$500,000
Dollar Threshold Used to Distinguish between Type A and Type B Programs	\$300,000
Pass-through Entity	Texas Education Agency

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

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	10-610101098904	\$ 152,983
ESEA, Title I, Part C - Migratory Children	84.011	10-615001188950	22,621
IDEA - Part B, Formula	84.027	10-6600011799016600	88,256
IDEA - Part B, Preschool	84.173	10-6610011799016610	8,467
ESEA Title IV, Pt. A - Safe and Drug-Free Schools	84.186A	10-691001098904	2,515
Title II, Part D -Enhancing Ed. Through Technology	84.318	10-630001098904	1,311
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	S358A092458	24,869
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	10-694501098904	31,877
Title II D Enhancing Ed. Through Technology - ARRA	84.386	10-553001098904	1,723
ESEA, Title I, A - ARRA - Improving Basic Programs	84.389	10-551001098904	55,164
Title XIV, State Fiscal Stabilization Fund - ARRA	84.394	10-557001098904	163,662
Total Passed Through State Department of Education			\$ 553,448
<b>TOTAL DEPARTMENT OF EDUCATION</b>			<u>\$ 553,448</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through the State Department of Agriculture</u>			
School Breakfast Program*	10.553		\$ 30,411
National School Lunch Program - Cash Assistance*	10.555		176,972
National School Lunch Prog. - Non-Cash Assistance*	10.555		18,028
Total CFDA Number 10.555			195,000
Total Passed Through the State Department of Agriculture			\$ 225,411
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			<u>\$ 225,411</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u>\$ 778,859</u>

\*Clustered Programs as required by Compliance Supplement March, 2010

**SPEARMAN ISD**  
**NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS**  
**YEAR ENDED AUGUST 31, 2010**

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

The modified accrual basis of accounting is used for the Governmental Fund types 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.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement - Provisional 6/97.

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## COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of Trustees  
Spearman ISD  
403 E. Eleventh Ave.  
Spearman, TX 79081

To the Board of Trustees:

We have audited the financial statements of the governmental activities, the major funds, and the aggregate remaining fund information of Spearman Independent School District for the year ended August 31, 2010, and have issued our report thereon dated January 6, 2011. Professional standards require that we provide you with the following information related to our audit.

### Our Responsibility under U.S. Generally Accepted Auditing and Government Auditing Standards

As stated in our engagement letter dated August 18, 2010, our responsibility, as described by professional standards, is to express opinions about whether the financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of Spearman Independent School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of Spearman Independent School District's compliance with certain provisions of laws, regulations, contract, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### Significant Audit Findings

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Spearman Independent School District are described in Note (I) to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are

particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from expected.

Management's estimates are based on historical experience for allowances and time of usefulness for depreciation. We evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

#### *Difficulties Encountered in performing the Audit*

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

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

#### *Disagreements with Management*

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

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 7, 2010.

#### *Management Consultations with Other Independent Accountants*

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

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year in the normal course of our professional relationship.

No other issues were detected during the course of our audit that have not been previously discussed.

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

Amarillo, TX  
January 6, 2011