

**SAN BENITO CONSOLIDATED
INDEPENDENT SCHOOL DISTRICT**

*ANNUAL FINANCIAL
AND
COMPLIANCE REPORT*

FOR THE YEAR ENDED AUGUST 31, 2010

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

SAN BENITO, TEXAS

YEAR ENDED AUGUST 31, 2010

TRUSTEES

Oscar Medrano - President

Bob Tumberlinson - Vice-President

Hector G. Leal - Secretary

Oscar de la Fuente, Jr.

Joe G. Gonzalez

Yliana G. Rodriguez

Manuel Gonzales, Jr.

SUPERINTENDENT

Antonio G. Limon

BUSINESS MANAGER

Emma McCall

**SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
YEAR ENDED AUGUST 31, 2010**

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ANNUAL FINANCIAL AND COMPLIANCE REPORT
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INTRODUCTORY SECTION

CERTIFICATE OF BOARD

San Benito Consolidated Independent School District
Name of School District

Cameron
County

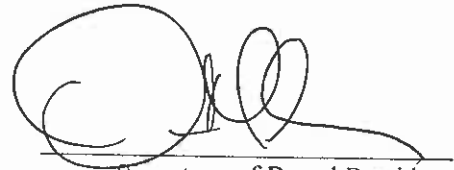
031-912
Co.-Dist. Number

We, the undersigned, do hereby certify that the attached annual financial reports of the above named school district were reviewed and ✓ approved -- ___ disapproved for the year ended August 31, 2010 at a
(Check one)

meeting of the board of school trustees of such school district on the 25 day of January, 2011.



Signature of Board Secretary



Signature of Board President

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
San Benito Consolidated Independent School District

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of the San Benito Consolidated Independent School 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 management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of San Benito Consolidated Independent School District as of August 31, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2011 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis, and the General Fund - Budgetary Comparison Schedule on pages 15 through 21 and 64 through 65 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise San Benito Consolidated Independent School District's basic financial statements. The accompanying financial information listed as Other Schedules in the table of contents and the schedule of expenditures of federal awards are presented in accordance with requirements of the Texas Education Agency and 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 are not a required part of the basic financial statements. Such information except for that portion marked "Unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Long Chilton, LLP". The signature is stylized and cursive.

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
January 20, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of San Benito Consolidated Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2010. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

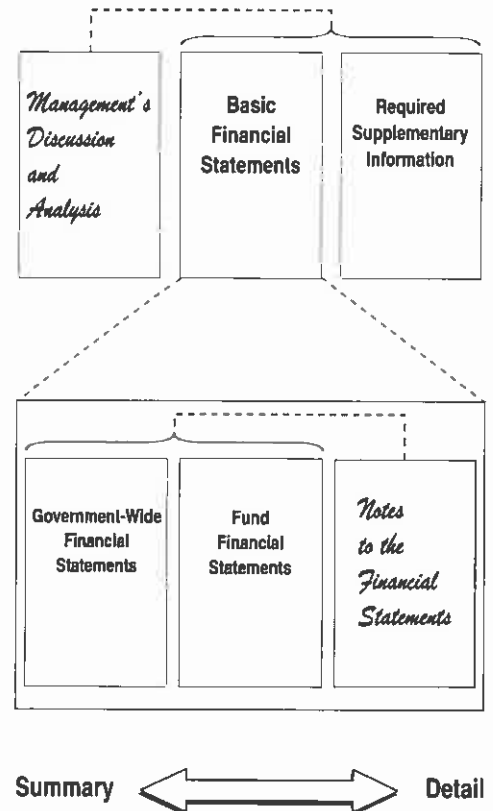
- The District's total combined net assets were \$53,971,303 at August 31, 2010. This is a decrease of \$4,714,816 from the prior year.
- During the year, the District's expenses were \$4,714,816 less than the \$124,488,472 generated in taxes and other revenues for governmental activities.
- The general fund reported a fund balance this year of \$15,775,675.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

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

Government-wide Statements

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

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

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

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

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

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

Fund Financial Statements

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

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

The District has the following kinds of funds:

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

- *Proprietary funds*—Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.
- The District uses *internal service funds* to report activities for its worker's compensation and employee benefits program, transportation, print shop and day care services.
- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

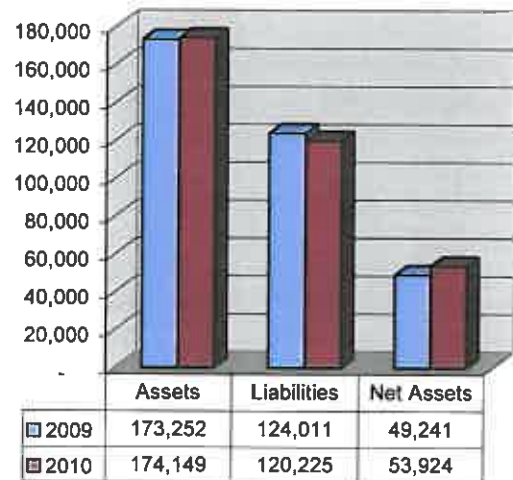
FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net assets for governmental activities were \$53,923,748 at August 31, 2010. (See Table A-1).

Table A-1
San Benito Consolidated Independent School District's Net Assets
(In thousands dollars)

	Governmental Activities	
	2010	2009
Current and other assets	\$ 48,184	\$ 54,282
Capital assets	<u>125,965</u>	<u>118,970</u>
Total Assets	<u>174,149</u>	<u>173,252</u>
Long-term liabilities outstanding	105,311	107,979
Other liabilities	<u>14,914</u>	<u>16,032</u>
Total Liabilities	<u>120,225</u>	<u>124,011</u>
Net Assets:		
Invested in capital assets – net of related debt	17,413	33,530
Restricted	19,518	4,653
Unrestricted	<u>16,993</u>	<u>11,058</u>
Total Net Assets	\$ <u>53,924</u>	\$ <u>49,241</u>

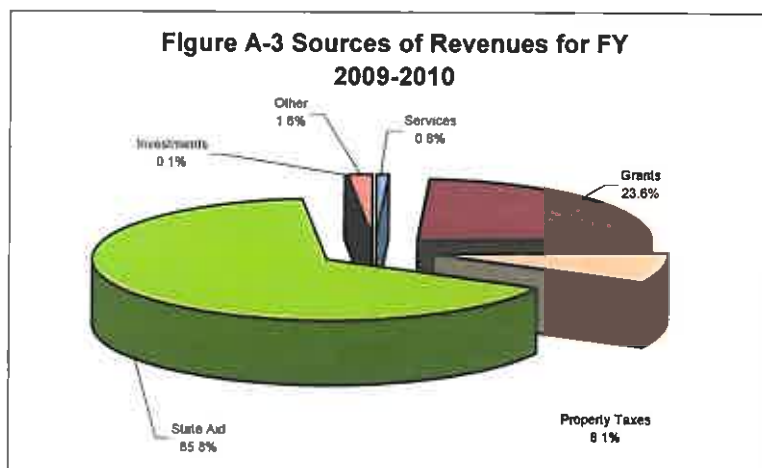
Figure A-1 San Benito CISD Net Assets



Approximately 36.1% of the District's net assets are subject to external restrictions on how they may be used. The \$16,993,861 of unrestricted net asset represents resources available to fund the programs of the District next year.

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets. The same situation is true for the prior year.

Figure A-3 Sources of Revenues for FY 2009-2010



Changes in net assets. The District's total revenues were \$ 124,488,472. Approximately 8%, of the District's revenue comes from taxes. (See Figure A-3.) 66% comes from state aid – formula grants and operating grants, while 24% comes from federal grants. The increase in local revenues is due primarily to the increase in the debt service tax rate which was raised by about 6 cents in order to cover the District's share of the bonds which were issued in 2008. The Federal share increased by about \$9.8 million. This increase was due primarily to the stimulus funds the District received.

The total cost of all programs and services was \$119,773,656.

Governmental Activities

- Property tax rates remained at 1.3049. Property values increased by about 4%.
- Average daily attendance increased by 100 students.

Table A-2
Changes in San Benito Consolidated Independent School District's Net Assets
(In thousands dollars)

	Governmental Activities	
	<u>2010</u>	<u>2009</u>
Program Revenues:		
Charges for Services	\$ 929	\$ 880
Operating Grants and Contributions	29,372	18,878
General Revenues:		
Property Taxes	10,060	9,817
State Aid – Formula	81,961	79,749
Investment Earnings	109	894
Other	<u>1,958</u>	<u>1,016</u>
Total Revenues	124,389	111,234
Expenses:		
Instruction	61,088	54,196
Instructional Resources and Media Services	1,819	1,609
Curriculum Dev. And Instructional Staff Dev	2,511	1,592
Instructional Leadership	4,168	4,105
School Leadership	5,635	5,364
Guidance, Counseling and Evaluation Services	3,494	3,357
Social Work Services	1,131	1,174
Health Services	1,069	1,011
Student (Pupil) Transportation	1,171	1,417
Food Services	7,012	6,823
Co-Curricular/Extracurricular Activities	2,947	3,217
General Administration	3,963	3,010
Plant Maintenance & Operations	15,265	14,522
Security & Monitoring Services	2,013	1,711
Data Processing Services	170	228
Community Services	634	573
Debt Service	5,443	5,832
Bond Issuance Fees	7	7
Capital Outlay	-	31
Payments to Juvenile Justice Alternative Education	48	91
Other Intergovernmental	<u>114</u>	<u>-</u>
Total Expenses	<u>119,702</u>	<u>109,870</u>
Increase in Net Assets	4,687	1,364
Beginning Net Assets	<u>49,237</u>	<u>47,873</u>
Ending Net Assets	<u>\$ 53,924</u>	<u>\$ 49,237</u>

The District has restated 2009 amounts to correctly reflect the effect of prior period adjustments made during the current year, as further discussed in NOTE T in the notes to the financial statements.

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

	Total Cost of Services		% Change	Net Cost of Services		% Change
	<u>2010</u>	<u>2009</u>		<u>2010</u>	<u>2009</u>	
Instruction	61,091	54,177	12.8%	40,627	42,990	(5.5%)
School Leadership	5,635	5,364	5.1%	2,002	4,839	(58.6%)
Food Services	7,012	6,823	2.8%	6,573	209	3,045.0%
Plant Maintenance & Operations	15,265	14,522	5.1%	14,917	13,829	7.9%
Debt Service	5,443	5,832	(6.7%)	5,443	(1,821)	(398.9%)

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

- The cost of all *governmental* activities this year was \$119,702,005.
- However, the amount that our taxpayers paid for these activities through property taxes was \$10,060,206.
- Some of the cost was paid by those who directly benefited from the programs \$929,532 or by grants and contributions \$29,371,706.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$122,706,636 an increase of \$9.7 million over the preceding year. There was a decrease in local revenues of about \$372,092. Although property tax collections increased by about \$300,000 this was more than offset by the decrease of interest income. Most of the interest was earned on the balance of the bonds which were sold in 2008. As the construction projects have progressed the balance of funds to invest has decreased. In addition the yields on the investments have decreased due to the sluggish economy. State revenue totaled \$80.5 million an increase of about \$261,289 over last year. The increase in state revenue was due to an increase in average daily attendance. Federal program revenues were \$30.8 million. This is an increase of \$9.8 million over the prior year. This increase was due to the stimulus funding the district received.

General Fund Budgetary Highlights

- Property tax collections rate was 97%.
- Average Daily Attendance was 10,155, up 100 from the prior year.
- For six consecutive years have received Superior rating for the Financial Integrity Reporting System of Texas (FIRST).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2010, the District had invested \$192,233,612 in a broad range of capital assets, including land, equipment, buildings, vehicles, and Construction in Progress. (See Table A-4.) The construction in progress consists of remodeling and replacement of chill water systems for various campuses and construction of a new elementary campus.

Prior Period Adjustment

The District recorded adjustments to beginning net assets in the Governmental Fund's Statement of Activities and the Statement of Revenues, Expenses and Changes in Fund Net Assets of the Internal Service Fund totaling \$10,422,766 and \$526,488, respectively, to decrease capital assets which were overstated resulting from differences in the subsidiary and the general ledger balances. The prior year capital assets have been restated, as further discussed in NOTE T in the notes to the financial statements.

Table A-4
District's Capital Assets
(In thousands of dollars)

	Governmental Activities	
	<u>2010</u>	<u>2009</u>
Land	\$ 7,483	\$ 6,586
Buildings and improvements	156,580	146,071
Vehicles & Equipment	16,042	14,909
Construction in Progress	<u>12,129</u>	<u>11,237</u>
Totals at historical cost	192,234	178,803
 Total accumulated depreciation	 <u>66,269</u>	 <u>59,833</u>
Net capital assets	<u>\$125,965</u>	<u>\$118,970</u>

Long Term Debt

At year-end the District had \$107,596,045 in bonds outstanding as shown in Table A-5. In June 2010, the district refunded \$3,535,000 of the Series 2000 bonds. This refunding will result in a net savings of \$419,788.

Table A-5
District's Bonds and Long-Term Liabilities
(In thousands of dollars)

	Governmental Activities	
	<u>2010</u>	<u>2009</u>
Compensated absences payable	\$ 1,112	\$ 936
Accrued interest payable	29	1,071
Capital leases	209	306
Bonds payable	107,596	110,813
Note payable	750	-
Deferred loss	(156)	-
Discount/Premium - Bonds	<u>563</u>	<u>337</u>
Total bonds & notes payable	<u>\$110,103</u>	<u>\$113,463</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2010-11 budget preparation are up \$24 million, or about 3% from \$809 million in 2009 –2010 to \$832 million currently.
- The tax rate remained at 1.3049; however, the District had shifted 13 cents from the debt service rate to the maintenance rate in the prior year. This had been done based on an attorney's opinion that no election was required for this. However, the Texas attorney general ruled later that a TRE would be required. The District held a TRE (tax ratification election) on September 18, 2010, the election passed.
- The District's 2010-11 refined average daily attendance was expected to remain at 10,155.

These indicators were taken into account when adopting the general fund budget for 2010-2011. Amounts available for appropriation in the general fund budget are \$87.7 million, an increase of 8.4 percent from the 2009-2010 original budget of \$80.9 million. The prior year budget was amended later to reflect the tax increase. This increase was used to balance the budget and provide raises for the staff.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Office at 240 N. Crockett Street, San Benito, Texas 78586.

BASIC
FINANCIAL STATEMENTS

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2010

EXHIBIT A-1

		1	2	3
		Primary Government		
Data			Business	
Control		Governmental	Type	
Codes		Activities	Activities	Total
ASSETS				
1110	Cash and Cash Equivalents	\$ 30,967,400	\$ 49,831	\$ 31,017,231
1220	Property Taxes Receivable (Delinquent)	2,857,334	-	2,857,334
1230	Allowance for Uncollectible Taxes	(285,732)	-	(285,732)
1240	Due from Other Governments	11,186,467	-	11,186,467
1267	Due from Fiduciary Funds	1,049,160	-	1,049,160
1290	Other Receivables, net	614,363	-	614,363
1300	Inventories	436,072	-	436,072
1410	Deferred Expenses	475,831	-	475,831
1420	Capitalized Bond and Other Debt Issuance Costs	882,245	-	882,245
1490	Other Current Assets	685	-	685
Capital Assets:				
1510	Land	7,483,178	-	7,483,178
1520	Buildings, Net	101,162,834	-	101,162,834
1530	Furniture and Equipment, Net	5,189,577	-	5,189,577
1580	Construction in Progress	12,129,409	-	12,129,409
1000	Total Assets	174,148,823	49,831	174,198,654
LIABILITIES				
2110	Accounts Payable	3,477,753	2,276	3,480,029
2140	Interest Payable	18,132	-	18,132
2150	Payroll Deductions & Withholdings	230,312	-	230,312
2160	Accrued Wages Payable	3,510,704	-	3,510,704
2177	Due to Fiduciary Funds	10,425	-	10,425
2180	Due to Other Governments	751	-	751
2300	Deferred Revenues	2,873,996	-	2,873,996
Noncurrent Liabilities				
2501	Due Within One Year	4,791,983	-	4,791,983
2502	Due in More Than One Year	105,311,019	-	105,311,019
2000	Total Liabilities	120,225,075	2,276	120,227,351
NET ASSETS				
3200	Invested in Capital Assets, Net of Related Debt	17,412,744	-	17,412,744
Restricted for:				
3820	Restricted for Federal and State Programs	1,968,241	-	1,968,241
3850	Restricted for Debt Service	1,338,813	-	1,338,813
3860	Restricted for Capital Projects	16,210,089	-	16,210,089
3900	Unrestricted Net Assets	16,993,861	47,555	17,041,416
3000	Total Net Assets	\$ 53,923,748	\$ 47,555	\$ 53,971,303

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2010

Data Control Codes	1	Program Revenues	
		3	4
	Expenses	Charges for Services	Operating Grants and Contributions
Primary Government:			
GOVERNMENTAL ACTIVITIES:			
11 Instruction	\$ 61,088,835	\$ -	\$ 20,463,318
12 Instructional Resources and Media Services	1,818,621	-	354,603
13 Curriculum and Staff Development	2,511,340	-	1,954,527
21 Instructional Leadership	4,167,551	-	2,165,913
23 School Leadership	5,635,032	-	556,429
31 Guidance, Counseling and Evaluation Services	3,494,117	-	972,215
32 Social Work Services	1,131,404	-	753,644
33 Health Services	1,068,804	-	193,261
34 Student (Pupil) Transportation	1,170,912	-	187,734
35 Food Services	7,012,447	439,177	-
36 Extracurricular Activities	2,946,903	126,290	193,823
41 General Administration	3,962,533	361,388	138,605
51 Plant Maintenance and Operations	15,264,951	2,677	345,714
52 Security and Monitoring Services	2,013,431	-	628,708
53 Data Processing Services	170,112	-	36,376
61 Community Services	633,776	-	426,836
72 Debt Service - Interest on Long Term Debt	5,442,800	-	-
73 Debt Service - Bond Issuance Cost and Fees	6,778	-	-
95 Payments to Juvenile Justice Alternative Ed. Prg.	47,653	-	-
99 Other Intergovernmental Charges	114,005	-	-
[TG] Total Governmental Activities:	119,702,005	929,532	29,371,706
BUSINESS-TYPE ACTIVITIES:			
01 Day Care	66,600	71,058	-
02 After School Paid Program	5,051	28,245	-
[TB] Total Business-Type Activities:	71,651	99,303	-
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 119,773,656	\$ 1,028,835	\$ 29,371,706
Data Control Codes	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		
DT	Property Taxes, Levied for Debt Service		
SF	State Aid - Formula Grants		
IE	Investment Earnings		
MI	Miscellaneous Local and Intermediate Revenue		
TR	Total General Revenues		
CN	Change in Net Assets		
NB	Net Assets--Beginning		
PA	Prior Period Adjustment		
NE	Net Assets--Ending		

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

Net (Expense) Revenue and Changes in Net Assets		
6	7	8
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (40,625,517)	\$ -	\$ (40,625,517)
(1,464,018)	-	(1,464,018)
(556,813)	-	(556,813)
(2,001,638)	-	(2,001,638)
(5,078,603)	-	(5,078,603)
(2,521,902)	-	(2,521,902)
(377,760)	-	(377,760)
(875,543)	-	(875,543)
(983,178)	-	(983,178)
(6,573,270)	-	(6,573,270)
(2,626,790)	-	(2,626,790)
(3,462,540)	-	(3,462,540)
(14,916,560)	-	(14,916,560)
(1,384,723)	-	(1,384,723)
(133,736)	-	(133,736)
(206,940)	-	(206,940)
(5,442,800)	-	(5,442,800)
(6,778)	-	(6,778)
(47,653)	-	(47,653)
(114,005)	-	(114,005)
(89,400,767)	-	(89,400,767)
-	4,458	4,458
-	23,194	23,194
-	27,652	27,652
(89,400,767)	27,652	(89,373,115)
9,037,253	-	9,037,253
1,022,953	-	1,022,953
81,960,854	-	81,960,854
109,361	-	109,361
1,957,510	-	1,957,510
94,087,931	-	94,087,931
4,687,164	27,652	4,714,816
62,883,351	19,903	62,903,254
(13,646,767)	-	(13,646,767)
\$ 53,923,748	\$ 47,555	\$ 53,971,303

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2010

EXHIBIT C-1

Data Control Codes	10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 9,142,363	\$ 17,604,906	\$ 1,445,067	\$ 28,192,336
1220 Property Taxes - Delinquent	2,453,136	-	404,198	2,857,334
1230 Allowance for Uncollectible Taxes (Credit)	(245,313)	-	(40,419)	(285,732)
1240 Receivables from Other Governments	3,132,407	-	7,213,797	10,346,204
1260 Due from Other Funds	9,032,909	-	163,219	9,196,128
1290 Other Receivables	614,363	-	-	614,363
1300 Inventories	436,072	-	-	436,072
1410 Deferred Expenditures	13,495	-	-	13,495
1490 Other Current Assets	685	-	-	685
1000 Total Assets	<u>\$ 24,580,117</u>	<u>\$ 17,604,906</u>	<u>\$ 9,185,862</u>	<u>\$ 51,370,885</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110 Accounts Payable	\$ 961,415	\$ 1,394,817	\$ 176,706	\$ 2,532,938
2140 Interest Payable - Current	18,132	-	-	18,132
2150 Payroll Deductions and Withholdings Payable	22,801	-	-	22,801
2160 Accrued Wages Payable	2,869,066	-	613,195	3,482,261
2170 Due to Other Funds	142,526	-	5,697,301	5,839,827
2180 Due to Other Governments	-	-	751	751
2300 Deferred Revenues	4,790,502	-	654,776	5,445,278
2000 Total Liabilities	<u>8,804,442</u>	<u>1,394,817</u>	<u>7,142,729</u>	<u>17,341,988</u>
Fund Balances:				
Reserved For:				
3410 Investments in Inventory	436,072	-	-	436,072
3420 Retirement of Long Term Debt	-	-	1,407,810	1,407,810
3430 Prepaid Items	13,495	-	-	13,495
3450 Food Service/Federal or State Funds	96,322	-	-	96,322
Unreserved Designated For:				
3590 Other Purposes	1,968,241	-	-	1,968,241
Unreserved and Undesignated:				
3600 Reported in the General Fund	13,261,545	-	-	13,261,545
3610 Reported in Special Revenue Funds	-	-	635,323	635,323
3620 Reported in Capital Projects Funds	-	16,210,089	-	16,210,089
3000 Total Fund Balances	<u>15,775,675</u>	<u>16,210,089</u>	<u>2,043,133</u>	<u>34,028,897</u>
4000 Total Liabilities and Fund Balances	<u>\$ 24,580,117</u>	<u>\$ 17,604,906</u>	<u>\$ 9,185,862</u>	<u>\$ 51,370,885</u>

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

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

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 34,028,897
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. The cost of these assets was \$188,170,148 and the accumulated depreciation was \$63,366,176. The net effect of capital assets (net of accumulated depreciation) in the governmental activities is to increase (decrease) net assets.	124,803,972
2 Property taxes receivable to pay for current period expenditures are deferred in the funds.	2,571,603
3 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase (decrease) net assets.	1,740,032
4 Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(107,596,045)
5 Long-term liabilities, including notes payable, are not due and payable in the current period and therefore are not reported in the funds.	(750,000)
6 Long-term liabilities, including payables for capital leases, are not due and payable in the current period and therefore are not reported in the funds.	(208,605)
7 Long-term liabilities, including payables for bond interest accretion, are not due and payable in the current period and therefore are not reported in the funds.	(28,876)
8 Long-term liabilities, including payable for compensated absences, are not due and payable in the current period and therefore are not reported in the funds.	(1,112,475)
9 Discounts and premiums on bonds are reported as other financing sources or uses in governmental funds, whereas they are capitalized and amortized for net assets.	(563,397)
10 Deferred gains and losses on refunding are reported as other financing sources or uses in governmental funds, whereas they are capitalized and amortized for net assets.	156,397
11 Deferred charges for bond issuance costs are current expenditures in the governmental funds, whereas they are capitalized and amortized for net assets.	882,245
19 Net Assets of Governmental Activities	\$ 53,923,748

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

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

EXHIBIT C-3

Data Control Codes	10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 10,196,011	\$ 60,826	\$ 1,166,638	\$ 11,423,475
5800 State Program Revenues	70,070,432	-	10,452,427	80,522,859
5900 Federal Program Revenues	7,907,811	-	22,852,491	30,760,302
5020 Total Revenues	88,174,254	60,826	34,471,556	122,706,636
EXPENDITURES:				
Current:				
0011 Instruction	39,333,184	-	18,296,577	57,629,761
0012 Instructional Resources and Media Services	1,426,095	-	288,733	1,714,828
0013 Curriculum and Instructional Staff Development	426,176	-	1,941,837	2,368,013
0021 Instructional Leadership	1,562,722	-	2,366,978	3,929,700
0023 School Leadership	5,021,362	-	292,067	5,313,429
0031 Guidance, Counseling and Evaluation Services	2,447,981	-	846,720	3,294,701
0032 Social Work Services	329,074	-	737,759	1,066,833
0033 Health Services	864,433	-	143,371	1,007,804
0034 Student (Pupil) Transportation	831,647	-	147,248	978,895
0035 Food Services	6,612,232	-	-	6,612,232
0036 Extracurricular Activities	2,682,523	-	113,426	2,795,949
0041 General Administration	2,864,674	-	12,806	2,877,480
0051 Facilities Maintenance and Operations	14,468,757	-	15,751	14,484,508
0052 Security and Monitoring Services	1,631,740	-	573,640	2,205,380
0053 Data Processing Services	149,456	-	36,376	185,832
0061 Community Services	177,113	-	420,492	597,605
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	262,155	-	3,085,000	3,347,155
0072 Debt Service - Interest on Long Term Debt	208,998	-	6,222,252	6,431,250
0073 Debt Service - Bond Issuance Cost and Fees	3,800	-	91,570	95,370
Capital Outlay:				
0081 Facilities Acquisition and Construction	1,457,198	10,936,036	-	12,393,234
Intergovernmental:				
0095 Payments to Juvenile Justice Alternative Ed. Prg.	47,653	-	-	47,653
0099 Other Intergovernmental Charges	114,005	-	-	114,005
6030 Total Expenditures	82,922,978	10,936,036	35,632,603	129,491,617
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	5,251,276	(10,875,210)	(1,161,047)	(6,784,981)
OTHER FINANCING SOURCES (USES):				
7911 Capital Related Debt Issued (Regular Bonds)	-	-	3,808,758	3,808,758
7912 Sale of Real and Personal Property	46,771	-	-	46,771
7914 Non-Current Loans	750,000	-	-	750,000
7915 Transfers In	-	-	8,774	8,774
7949 Other Resources	1,617,500	-	-	1,617,500
8911 Transfers Out (Use)	(2,259,161)	-	-	(2,259,161)
8949 Other (Uses)	-	-	(3,708,775)	(3,708,775)
7080 Total Other Financing Sources (Uses)	155,110	-	108,757	263,867
1200 Net Change in Fund Balances	5,406,386	(10,875,210)	(1,052,290)	(6,521,114)
0100 Fund Balance - September 1 (Beginning)	13,066,802	27,085,299	3,095,423	43,247,524
1300 Prior Period Adjustment	(2,697,513)	-	-	(2,697,513)
3000 Fund Balance - August 31 (Ending)	\$ 15,775,675	\$ 16,210,089	\$ 2,043,133	\$ 34,028,897

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

SAN BENITO CONSOLIDATED 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

Total Net Change in Fund Balances - Governmental Funds	\$ (6,521,114)
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net assets.	988,440
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide statements. The net effect of removing the 2010 capital outlays is to increase (decrease) net assets.	13,045,850
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.	(6,245,138)
The gain or loss on the disposal of capital assets is not reported in the funds.	(5,703)
Revenues recognized in the statement of activities that are not considered current financial resources are deferred and not reported as revenues in the funds.	23,967
Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. This is the amount of proceeds \$3,808,758 net of payments to escrow agent \$(3,708,775).	(99,983)
Governmental funds report the effect of issuance costs and related premiums and discounts when debt is first issue, whereas these amounts are deferred and amortized in the statement of activities. This is the net amount of premiums \$258,958 and gain/loss on issuance of \$173,775.	(31,851)
Repayment of long-term debt is an expenditure in the governmental funds, but the payment reduces long-term liabilities in the statement of net assets. This is the total amount the District repaid during the year for bonds \$3,250,000 and capital leases \$97,155.	3,347,155
Governmental funds report the effect of issuance costs when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This is the current period amortization of issuance costs.	49,738
Interest accretion on long-term debt is included in the change in net assets as it accrues, regardless of when payment is made. This is the amount accrued \$459,306 net of accrued interest paid of \$(1,467,692).	1,008,386
Compensated absences are included in the change in net assets, but do not require the use of current funds, and are not included in the change in fund balances.	(175,750)

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

SAN BENITO CONSOLIDATED 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

Debt issuance premiums and discounts are included in the change in net assets as they are amortized over the life of the debt. However, they are included in the change in fund balance upon issuance as other financing sources and uses. This is the current period amortization of premiums and discounts.	35,789
Note payable proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.	(750,000)
Gains and losses on refunding of bonds are included in the change in net assets as they are amortized over the life of the debt. However, they are included in the change in fund balance upon issuance as other financing sources and uses. This is the current period amortization of deferred gain/loss.	17,378
Change in Net Assets of Governmental Activities	\$ 4,687,164

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2010

EXHIBIT D-1

	Business-Type Activities -	Governmental Activities -
	Total Enterprise Funds	Total Internal Service Funds
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 49,831	\$ 2,775,064
Due from Other Governments	-	840,263
Due from Other Funds	-	173,306
Deferred Expenses	-	462,336
Total Current Assets	49,831	4,250,969
Noncurrent Assets:		
Capital Assets:		
Buildings and Improvements	-	106,956
Depreciation on Buildings	-	(75,139)
Furniture and Equipment	-	3,956,508
Depreciation on Furniture and Equipment	-	(2,827,299)
Total Noncurrent Assets	-	1,161,026
Total Assets	49,831	5,411,995
LIABILITIES		
Current Liabilities:		
Accounts Payable	2,276	944,817
Payroll Deductions and Withholdings Payable	-	207,511
Accrued Wages Payable	-	28,443
Due to Other Funds	-	2,490,872
Deferred Revenues	-	320
Total Liabilities	2,276	3,671,963
NET ASSETS		
Unrestricted Net Assets	47,555	1,740,032
Total Net Assets	\$ 47,555	\$ 1,740,032

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS

FOR THE YEAR ENDED AUGUST 31, 2010

	Business-Type Activities -	Governmental Activities -
	Total Enterprise Funds	Total Internal Service Funds
OPERATING REVENUES:		
Local and Intermediate Sources	\$ 99,303	\$ 8,323,842
State Program Revenues	-	840,193
Total Operating Revenues	99,303	9,164,035
OPERATING EXPENSES:		
Payroll Costs	13,312	1,894,916
Professional and Contracted Services	57,409	7,635,883
Supplies and Materials	650	612,739
Other Operating Costs	280	274,452
Capital Outlay	-	7,991
Total Operating Expenses	71,651	10,425,981
Income Before Transfers	27,652	(1,261,946)
Transfer In	-	2,250,386
Operating Income (Loss)	27,652	988,440
Total Net Assets - September 1 (Beginning)	19,903	1,278,080
Prior Period Adjustment	-	(526,488)
Total Net Assets - August 31 (Ending)	\$ 47,555	\$ 1,740,032

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2010

EXHIBIT D-3

	Business-Type Activities	Governmental Activities -
	Total Enterprise Funds	Total Internal Service Funds
<u>Cash Flows from Operating Activities:</u>		
Cash Received from Grants	\$ 99,903	\$ 840,193
Cash Received for Quasi-external Operating Trans.	-	5,233,275
Cash Payments for Employee Premiums	-	2,229,477
Cash Payments for Employees for Services	(13,312)	(1,894,916)
Cash Payments for Suppliers	(61,909)	(8,531,065)
Net Cash Provided by (Used for) Operating Activities	24,682	(2,123,036)
<u>Cash Flows from Non-Capital Financing Activities:</u>		
Operating Transfer In	-	2,250,386
<u>Cash Flows from Capital & Related Financing Activities:</u>		
Acquisition of Capital Assets	-	(392,852)
Net Increase (Decrease) in Cash and Cash Equivalents	24,682	(265,502)
Cash and Cash Equivalents at Beginning of the Year:	25,149	3,040,566
Cash and Cash Equivalents at the End of the Year:	\$ 49,831	\$ 2,775,064
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>		
<u>Provided by (Used for) Operating Activities:</u>		
Operating Income (Loss):	\$ 27,652	\$ (1,261,946)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:		
Depreciation	-	189,998
Effect of Increases and Decreases in Current Assets and Liabilities:		
Decrease (increase) in Receivables	-	872,383
Decrease (increase) in Other Assets	-	108,403
Decrease (increase) in Prepaid Expenses	-	(340,080)
Increase (decrease) in Accounts Payable	(2,970)	(60,697)
Increase (decrease) in Payroll Deductions	-	(59,962)
Increase (decrease) in Accrued Wages Payable	-	(2,488)
Increase (decrease) in Other Liabilities	-	320
Increase (decrease) in Due to Other Funds	-	(1,568,967)
Net Cash Provided by (Used for) Operating Activities	\$ 24,682	\$ (2,123,036)

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2010

EXHIBIT E-1

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 10,425	\$ 1,356,894
Due from Other Funds	-	10,425
Other Receivables	-	53,652
Total Assets	<u>10,425</u>	<u>\$ 1,420,971</u>
LIABILITIES		
Accounts Payable	-	\$ 42,301
Payroll Deductions and Withholdings Payable	-	17,321
Due to Other Funds	-	1,049,160
Due to Student Groups	-	312,189
Deferred Revenues	10,425	-
Total Liabilities	<u>10,425</u>	<u>\$ 1,420,971</u>
NET ASSETS		
Unrestricted Net Assets	-	
Total Net Assets	<u>\$ -</u>	

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2010

NOTE A - REPORTING ENTITY

This report includes the financial statements of the funds required to account for those activities, organizations and functions which are related to the San Benito Consolidated Independent School District (the District) and which are controlled by or dependent upon the District's governing body, the Board of Trustees. The Board of Trustees (the Board), includes seven eligible members elected at large by the qualified voters of the San Benito Consolidated Independent School District, the Board has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (TEA) or to the State Board of Education are reserved for the Board, and TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board.

The District receives funding from local, state and federal government sources and must comply with the applicable requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by GASB Statement No. 14 *The Financial Reporting Entity* since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. The District is a governmental entity exempt from federal income taxation under Internal Revenue Code Section 115.

In accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14, *The Financial Reporting Entity*, ("GASB Statement No. 14"), a financial reporting entity consists of the primary government and its component unit. Component units are legally separate organizations for which the elected officials of the District are financially accountable, or for which the relationship to the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District's blended component unit, although a legally separate entity, is in substance part of the District's operations, and so data from this unit is combined with data of the primary government.

The criteria used to determine whether an organization is a component unit of the District includes: financial accountability of the District for the component unit, appointment of a voting majority, fiscal dependency, ability to impose the District's will on the component unit, and whether there is a financial benefit or burden to the District.

For financial reporting purposes, the San Benito Consolidated Independent School District Public Facility Corporation ("PFC") is included in the operations and activities of the District because of the fiscal dependency criteria whereby the PFC serves the District exclusively.

The San Benito Consolidated Independent School District Public Facility Corporation ("PFC"), a blended component unit, was organized to finance the construction of a new multi-purpose stadium for the District. SBCISD PFC is governed by a Board of Directors composed of the San Benito Consolidated Independent School District Board of Trustees. The SBCISD PFC is blended as part of the Capital Projects Fund. There are no discretely presented component units within the reporting entity.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

1. *Government-Wide Statements and Fund Financial Statements*

The government-wide financial statements consist of the statement of net assets and the statement of activities. These statements report information on all of the non-fiduciary activities of the District. The effect of the interfund activity has been removed from these statements. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program revenues include charges to customers and grants used for operational requirements. Governmental activities are supported by tax revenues, state aid, charges for services, investment earnings and intergovernmental revenues such as grants.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to, and accounted for the purpose of, carrying on specific activities in accordance with laws, regulations, or other appropriate requirements. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The District reports the following major governmental funds:

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

Capital Projects Fund. The District uses this fund to account for bond proceeds used for construction.

The District reports the following fund types:

Governmental Funds:

Special Revenue Funds. The District accounts for resources restricted to, or designated for, a specific purpose by the District or a grantor in a special revenue fund. Most federal and some state financial award programs are accounted for in these funds and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Debt Service Fund. This fund is used to account for the revenues collected from local taxation and allocated state aid for the payment of principal and interest on bonded indebtedness.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Fiduciary Funds:

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

Private Purpose Trust Funds. The District accounts for donations for which the donor 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 Funds includes the General Scholarship Fund, tax clearing fund and escrow account fund.

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, tax clearing fund and escrow account fund.

In addition, the District reports the following proprietary fund:

Enterprise Fund. The District accounts for daycare services and the after school paid program.

Internal Service Fund. These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the uses of support services on a cost reimbursement basis. The District uses this fund to account for claim payments and administrative costs paid for the modified self-funded workers' compensation plan provided for the employees.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

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

2. *Measurement Focus, Basis of Accounting and Financial Statement Presentation*

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become available and measurable. The District considers revenues as available if they are collected within the 60 days after year end. Revenues susceptible to accrual are property taxes, fiscal year state funding, and interest revenues. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

Unearned revenue is reported in the governmental funds when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures.

In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

3. *Budgets*

The official school budget was prepared for adoption for required Governmental Fund Types by August 20, 2009. The budget was formally adopted by the board of school trustees at a duly advertised public meeting prior to the expenditure of funds. The budget was amended by the board of school trustees throughout the year. Expenditures may not legally exceed budgeted appropriations at the function level.

4. *Cash and Cash Equivalents*

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

5. *Investments*

Money market investments which are short-term, highly liquid debt instruments including commercial paper, bankers' acceptances and U.S. Treasury and agency obligations are reported at fair value.

6. *Inventory*

Inventory is valued at cost (average). The District accounts for the food inventory by using the purchase method whereby purchases of inventories are recognized as expenditures when the goods are received. The District accounts for school supply and maintenance inventory by the consumption method whereby expenditures are recognized when the inventory items are used. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. Commodity inventory is offset by unearned revenue.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

7. *Other Current Assets*

Other current assets are prepaid expenses that will benefit periods beyond August 31, 2010. The only prepaid expenses included are for unexpired insurance policy premiums paid by August 31, 2010, and which extend beyond that date. The reported prepaid insurance is equally offset by a fund balance reserve, which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

8. *Capital Assets*

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

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

<u>Assets Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	52
Buildings Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

9. *Interfund Activity*

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

10. *Long-term Obligations*

In government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. Premiums received and discounts incurred on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from debt proceeds, are reported as debt service expenditures.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

11. *Use of Estimates*

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

12. *Compensated Absences*

The District's policy allows employees who retire and have accumulated unused state leave to be paid \$40 per day for any unused leave at the time of retirement.

13. *Accounting System*

In accordance with the Resource Guide, the District has adopted and installed an accounting system which meets at least the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure prescribed by TEA in the Resource Guide. Mandatory codes are recorded in the order provided in that section.

14. *Data Control Codes*

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

15. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. "Other Reserves" on the fund financial statements consist of reserves for construction, campus and student activities, and state programs. Designations of fund balance represent tentative management plans that are subject to change.

16. *Encumbrance Accounting*

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31st and encumbrances outstanding at that time are either cancelled or appropriately provided for in the subsequent year's budget.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE C - CASH AND INVESTMENTS - Continued

Investment Accounting Policy - Continued

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

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

The Act determines the types of investments, which are allowable for the District. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, the state of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The District's policy authorizes all the State allowable investments.

The District's management believes that it has complied in all material respects with the requirements of the Act and the District's investment policies.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act, the District's investment policy, and Government Code Chapter 2257 "Collateral For Public Funds" contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public fund investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and to the extent reasonable possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than .0995 or greater than 1.005, portfolio holdings shall be sold as necessary to maintain the ratio between 0.995 and 1.005.

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE C - CASH AND INVESTMENTS - Continued

Cash Deposits

At August 31, 2010, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,073,360 and the bank balance was \$3,725,617. In addition to these cash and cash equivalents, the District maintains \$30,311,190 in a government investment pool.

The District's cash deposits at August 31, 2010 are maintained primarily at Frost Bank, Harlingen, Texas. These deposits were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank except for three days in July 2010 when the District was undercollateralized by \$77,628. The deposits were collateralized in accordance with Texas Law, and the Texas Education Agency maintains copies of all safekeeping receipts in the name of the District. Deposits were properly secured at all times except as noted above.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: Frost Bank.
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$19,230,904.
- c. The highest combined balances of cash, savings and time deposit accounts amounted to \$15,976,642 and occurred during the month of December 28, 2009.
- d. Total amount of FDIC coverage at the time of largest combined balance was \$500,000.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the District's investment policy and the Texas Public Fund Investment Act and the actual rating as of year end for each investment.

<u>Description</u>	<u>Minimum Legal Rating</u>	<u>Amount</u>	<u>Rating</u>	<u>Percentage</u>
MBIA Asset Management	AAA	\$30,311,007	AAA	100.0%
Lone Star Investments	AAA	183	AAA	0.0%
		<u>\$30,311,190</u>		<u>100.0%</u>

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE C - CASH AND INVESTMENTS - Continued

Concentration of Credit Risk

The Investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Public Funds Investment Act ("PFIA"). There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

Public Funds Investment Pools

MBIA, Inc.'s Texas CLASS pool is a 2a7-like investment pool. Texas CLASS pool is rated AAA by Fitch. Texas CLASS participants' investments in the pool are evidenced by shares of the pool. The public entity's investment is with the pool, not the securities that make up the pool.

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

NOTE D - PROPERTY TAX

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

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. The District's 2009 tax rate was \$1.04 for maintenance and \$.2649 for debt service per \$100 assessed valuation. The 2009 assessed valuation was \$808,526,943.

Allowances for uncollectibles within the General and Debt Service Funds are based upon historical experience in collecting property taxes.

Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. At August 31, 2010 outstanding taxes in the general fund and debt service fund was \$2,453,136 and \$404,198 with a corresponding allowance for doubtful accounts of \$245,313 and \$40,419.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE E – DUE FROM AND TO OTHER GOVERNMENTS AND AGENCIES

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
<i>General Fund:</i>		
Texas Education Agency:		
Child Nutrition Program	\$ 259,878	\$ -
Foundation Funds	<u>2,872,529</u>	<u>-</u>
	3,132,407	-
<i>Other Governmental Funds:</i>		
Texas Education Agency:		
Vocational Education – Basic Grant	23,757	-
ESEA, Title IV, Part A – Safe and Drug Free Schools	6,208	-
ESEA, Title I, Part A – Improving Basic Programs	1,856,259	-
ESEA, Title I, Part A – ARRA – Improving Basic Programs	103,795	-
ESEA, Title II, Part C – Education of Migratory Children	215,550	-
ESEA, Title II, Part A – Teacher and Principal Training	281,296	-
ESEA, Title III, Part A – English Language Acquisition	77,944	-
ESEA, Title IV, Part B – 21 st Century Community Learning	74,404	-
ESEA, Title II, Part D – Enhancing Education Through Technology	12,670	-
ESEA, Title II, Part D – Enhancing Education Through Technology – ARRA	21,808	-
IDEA-B Formula	1,381,601	-
IDEA-B Formula – ARRA	10,763	-
IDEA-B Preschool	1,641	-
IDEA-B Preschool – ARRA	10,944	-
Reading First	306,616	-
Safe Schools/Healthy Student Grant	556,553	-
Gear Up/Region One ESC	74,063	-
High School Completion & Success/Texas High School	16,311	-
Student Success Initiative	104,050	-
Technology Allotment	47,909	-
Texas Fitness Now Grant	19,213	-
State Funded Optional Extended Year Program	12,483	-
Title IV, State Fiscal Stabilization Fund – ARRA	1,027,181	-
Kindergarten and Pre-kindergarten Grants	69,671	-
Master Reading Teacher	37,849	-
Teacher Induction and Mentoring Program	91,801	-
Grants for Student Clubs	7,006	-
Debt Service	764,451	-
Non-Educational Community-Based Support	<u>-</u>	<u>751</u>
	<u>7,213,797</u>	<u>751</u>
 Total governmental funds	 <u>\$10,346,204</u>	 <u>\$ 751</u>

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE F – DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2010, were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Due From Other Funds</u>	<u>Other Receivables</u>	<u>Total Receivables</u>
Governmental Activities:					
General Fund	\$2,453,136	\$ 3,132,407	\$9,032,909	\$ 614,363	\$15,232,815
Capital Projects Fund	-	-	-	-	-
Nonmajor Governmental Funds	<u>404,198</u>	<u>7,213,797</u>	<u>163,219</u>	<u>-</u>	<u>7,781,214</u>
Total Governmental Activities	<u>\$2,857,334</u>	<u>\$10,346,204</u>	<u>\$9,196,128</u>	<u>\$ 614,363</u>	<u>\$23,014,029</u>

Payables at August 31, 2010, were as follows:

	<u>Accounts Payable</u>	<u>Interest Payable</u>	<u>Salaries and Benefits</u>	<u>Due to Other Funds</u>	<u>Due to Other Governments</u>	<u>Total Payables</u>
Governmental Activities:						
General Fund	\$ 961,415	\$ 18,132	\$2,891,867	\$ 142,526	\$ -	\$ 4,013,940
Capital Projects Fund	1,394,817	-	-	-	-	1,394,817
Nonmajor Governmental Funds	<u>176,707</u>	<u>-</u>	<u>613,195</u>	<u>5,697,301</u>	<u>751</u>	<u>6,487,954</u>
Total Governmental Activities	<u>\$2,532,939</u>	<u>\$ 18,132</u>	<u>\$3,505,062</u>	<u>\$5,839,827</u>	<u>\$ 751</u>	<u>\$11,896,711</u>

NOTE G – CAPITAL ASSETS

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

	<u>Balance Sept. 1, 2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>Transfers/ Reclassifications</u>	<u>Balance Aug. 31, 2010</u>
Governmental activities					
Capital assets not being depreciated					
Land	\$ 6,585,828	\$ 903,053	\$ (5,703)	\$ -	\$ 7,483,178
Construction in progress	<u>11,237,066</u>	<u>8,538,464</u>	<u>-</u>	<u>(7,646,121)</u>	<u>12,129,409</u>
Total capital assets not being depreciated	<u>17,822,894</u>	<u>9,441,517</u>	<u>(5,703)</u>	<u>(7,646,121)</u>	<u>19,612,587</u>
Capital assets being depreciated					
Building and improvements	146,071,266	2,625,152	-	7,883,084	156,579,502
Equipment	8,519,519	737,769	-	(236,963)	9,020,325
Vehicles	<u>6,389,934</u>	<u>631,264</u>	<u>-</u>	<u>-</u>	<u>7,021,198</u>
Total capital assets being depreciated	<u>160,980,719</u>	<u>3,994,185</u>	<u>-</u>	<u>7,646,121</u>	<u>172,621,025</u>
Less accumulated depreciation for:					
Building and improvements	49,716,890	5,702,173	-	-	55,419,063
Equipment	5,402,820	439,762	-	-	5,842,582
Vehicles	<u>4,713,767</u>	<u>293,202</u>	<u>-</u>	<u>-</u>	<u>5,006,969</u>
Total accumulated depreciation	<u>59,833,477</u>	<u>6,435,136</u>	<u>-</u>	<u>-</u>	<u>66,268,613</u>
Total capital assets being depreciated, net	<u>101,147,242</u>	<u>(2,440,952)</u>	<u>-</u>	<u>7,646,121</u>	<u>106,352,411</u>
Governmental activities capital assets, net	<u>\$118,970,136</u>	<u>\$7,000,565</u>	<u>\$ (5,703)</u>	<u>\$ -</u>	<u>\$125,964,998</u>

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE G – CAPITAL ASSETS - Continued

Depreciation was charged to the following functions:

Government Activities:

11 – Instruction	\$3,393,527
12 – Instructional Resources and Media Services	100,978
13 – Curriculum and Instructional Staff	139,440
21 – Instructional Leadership	231,400
23 – School Leadership	312,881
31 – Guidance, Counseling and Evaluation Services	194,008
32 – Social Work Services	62,820
33 – Health Services	59,345
34 – Student (Pupil) Transportation	189,998
35 – Food Services	389,361
36 – Cocurricular/Extracurricular Activities	164,639
41 – General Administration	167,822
51 – Plant Maintenance and Operations	852,920
52 – Security and Monitoring Services	129,864
53 – Data Processing Services	10,943
61 – Community Services	35,190
	<u>\$6,435,136</u>

NOTE H - LONG-TERM OBLIGATIONS

Long-term obligations include bonds payable, loans payable, and compensated absences. Changes in long-term obligations for the year ended August 31, 2010 are as follows:

<u>Governmental Activities</u>	<u>Beginning Balance Sept. 1, 2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance Aug. 31, 2010</u>	<u>Due Within One Year</u>
General Obligation Bonds:					
Unlimited Tax School Building Bonds – Series 1996	\$ 1,035,000	\$ -	\$ (505,000)	\$ 530,000	\$ 530,000
Unlimited Tax School Building Bonds – Series 2000	5,220,000	-	(4,355,000)	865,000	865,000
Unlimited Tax School Building Bonds – Series 2004	33,905,000	-	(780,000)	33,125,000	805,000
Unlimited Tax School Building Bonds – Series 2005 - B	27,390,000	-	-	27,390,000	1,580,000
Unlimited Tax School Building Refunding CAB Bonds - Series 2005 - B	565,000	-	(565,000)	-	-
Unlimited Tax School Building Bonds – Series 2005 - A	800,000	-	-	800,000	-
Unlimited Tax School Building and Refunding CAB Bonds – Series 2005 - A	972,569	33,476	(140,000)	866,045	105,000
Lease Revenue Bonds – Series 2006	4,190,000	-	(165,000)	4,025,000	175,000

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE H - LONG-TERM OBLIGATIONS – Continued

<u>Governmental Activities</u>	<u>Beginning Balance Sept. 1, 2009</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance Aug. 31, 2010</u>	<u>Due Within One Year</u>
General Obligation Bonds: Continued					
Unlimited Tax School Building Bonds – Series 2008	\$ 36,460,000	\$ -	\$ -	\$36,460,000	\$ 715,000
Unlimited Tax School Building CAB - Bonds – Series 2008	275,000	-	(275,000)	-	-
Unlimited Tax School Building Bonds – Series 2010	-	3,505,000	-	3,505,000	-
Unlimited Tax School Building CAB - Bonds – Series 2010	-	30,000	-	30,000	5,000
Total general obligation bonds	110,812,569	3,568,476	(6,785,000)	107,596,045	4,780,000
Accrued Interest Unlimited Tax Refunding CAB Bonds – Series 2005	827,304	152,696	(980,000)	-	-
Accrued Interest Unlimited Tax School Building and Refunding CAB Bonds Series 2005	30,934	60,634	(62,692)	28,876	-
Accrued Interest Unlimited Tax Refunding CAB Bonds – Series 2008	212,500	212,500	(425,000)	-	-
Discount on Issuance, Bonds Series 2005	(73,597)	-	4,600	(68,997)	-
Premium on Issuance, Bonds Series 2008	410,417	-	(14,152)	396,265	-
Premium on Issuance, Bonds Series 2010	-	262,366	(26,237)	236,129	-
Deferred loss on Refunding – Series 2010	-	(173,775)	17,378	(156,397)	-
Note payable	-	750,000	-	750,000	140,449
Capital Leases	305,760	-	(97,155)	208,605	101,983
Compensated absences	936,725	224,307	(48,556)	1,112,476	50,000
Total governmental activities	\$113,462,612	\$5,057,204	\$(8,416,814)	\$110,103,002	\$5,072,432

The District's other noncurrent liabilities are liquidated in the fund where the liability was incurred. Thus, the general fund satisfies most liabilities for governmental activities.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE H - LONG-TERM OBLIGATIONS – Continued

General Obligation Bonds:

Bonds payable at August 31, 2010 are comprised of the following individual issues:

On December 15, 1995, the District issued \$10,240,000 Unlimited Tax School Building and Refunding Bonds Series 1996. The bonds comprise of \$10,045,000 current interest bonds with interest rates ranging from 3.90% to 5.00% and \$195,000 in premium capital appreciation bonds. The current interest bonds mature in years 1997 through 2013 in installments ranging from \$100,000 to \$1,140,000. The premium capital appreciation bonds matured and were paid on February 15, 2004 and 2005, in the amount of \$640,000 and 645,000, respectively. The bonds were issued to provide funds sufficient to (1) pay the costs of constructing and equipping school buildings in the District in the approximate amount of \$3,600,000 (2) refund \$6,640,000 of outstanding indebtedness of the District.	\$ 530,000
On December 11, 1999, an election to authorize the District to sell \$26,305,000 Unlimited Tax School Building Bonds Series 2000, passed by a majority of the participating voters. The bonds mature in years 2001 through 2024 with interest rates ranging from 4.50% to 5.20% in installments ranging from \$605,000 to \$1,970,000. Proceeds from the sale of the bonds were used for the construction of a new elementary school, a new ninth grade/academy campus and various new elementary school classroom wings.	865,000
On May 15, 2004, an election to authorize the District to sell \$37,670,000 Unlimited Tax School Building Bonds Series 2004, passed by a majority of the participating voters. The bonds comprised of \$19,260,000 in current interest serial bonds and \$18,410,000 in current interest term bonds. Current interest serial bonds mature in years 2005 through 2024 with interest rates ranging from 2% to 5% in installments ranging from \$705,000 to \$1,400,000. Term bonds mature in February 15, 2029 and February 15, 2034 in the amount of \$8,085,000 and \$10,325,000, respectively. Interest rates on term bonds are 4.75% and 5.00% in years 2029 and 2034, respectively. Proceeds from the sale of the bonds were used to construct and equip school building and to purchase the necessary sites for construction.	33,125,000
On May 15, 2004, an election to authorize the District to sell \$2,005,000 Unlimited Tax School Building and Refunding Bonds Series 2005, passed by a majority of the participating voters. The bonds comprise of \$800,000 current interest bonds with an interest rate 4.50% maturing February 15, 2025 and \$1,205,500 in capital appreciation bonds. Capital appreciations bonds mature in years 2008 through 2020 in installments ranging from \$140,000 to \$145,000 with interest rates ranging from 3.35% to 4.95%. The bonds were issued to equip school buildings including a football stadium and to purchase the necessary sites for construction.	1,666,045

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE H - LONG-TERM OBLIGATIONS – Continued

On April 15, 2005, the District issued \$29,880,000 Unlimited Tax Refunding Bonds Series 2005. The bonds comprise of \$29,315,000 current interest bonds with interest rates ranging from 3% to 5% and \$565,000 premium capital appreciation bonds. The current interest bonds mature in years 2005 through 2025 in installments ranging from \$115,000 to \$2,760,000. Capital appreciation bonds mature on February 15, 2010 in the amount of \$1,545,000 with an interest rate of 3.75%. The bonds were issued to refund certain outstanding unlimited tax obligations of the District in order to reduce the annual debt service of the District.

\$27,390,000

On February 13, 2006, the District issued \$4,500,000 Lease Revenue Bonds Series 2006. The bonds mature in years 2007 through 2026 in installments ranging from \$150,000 to \$345,000 with interest rates ranging from 4.01% to 4.68%. The bonds were issued to equip school buildings including a football stadium.

4,025,000

On September 25, 2008, the District received Unlimited Tax School Building Bonds, Series 2008 proceeds totaling \$37,000,000 to renovate certain campuses, more specifically the chill water system at the High School and other campuses as necessary; to add new wings to Veterans Academy to convert campus to a 9th and 10th grade campus. The bonds include \$17,945,000 in Serial Bonds, \$18,515,000 term current interest bonds and \$540,000 Premium Capital Appreciation Bonds (CAB). Interest rates vary from 3.00% to 4.625% on the serial bonds 5% on the term current interest bonds and 2.11% to 2.63% on the CAB bonds. Interest on the term current interest bonds and interest on the CAB Bonds is to accrete from the date of initial delivery. Interest on the serial bonds will mature and are payable annually on February 15th beginning in the year 2011. The bond matures on February 15, 2028.

36,460,000

On May 15, 2010, the District issued \$3,535,000 Unlimited Tax Refunding Bonds Series 2010. The bonds consist of \$3,505,000 current interest bonds with interest rates ranging from 2.52% to 2.91% and capital appreciation bonds totaling \$30,000 with interest rates ranging from .90% to 2.62%. The capital appreciation bonds mature in six annual installments of \$40,000 beginning in 2011 and ending in 2016. The current interest bonds mature in three installments beginning in 2017 and ending in 2019 ranging from \$1,060,000 to \$1,240,000. The bonds were issued to refund certain outstanding unlimited tax obligations of the District in order to reduce the annual debt service of the District.

3,535,000

\$107,596,045

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE H - LONG-TERM OBLIGATIONS – Continued

Debt service requirements on long-term debt at August 31, 2010 are as follows:

Year Ending August 31,	General Obligation Bonds		Notes Payable		Total Requirement
	Principal	Interest	Principal	Interest	
2011	\$ 4,780,000	\$ 12,438,956	\$140,449	\$ 24,675	\$ 17,384,080
2012	4,105,000	11,897,026	145,070	20,054	16,167,150
2013	4,286,045	11,355,469	149,843	15,281	15,806,638
2014	4,465,000	10,785,717	154,773	10,352	15,415,842
2015	4,660,000	10,183,195	159,865	5,260	15,008,320
2016-2020	22,765,000	40,938,151	-	-	63,703,151
2021-2025	22,730,000	22,111,134	-	-	44,841,134
2026-2030	15,835,000	7,942,184	-	-	23,777,184
2031-2035	17,415,000	3,675,375	-	-	21,090,375
2036-2040	<u>6,555,000</u>	<u>502,625</u>	<u>-</u>	<u>-</u>	<u>7,057,625</u>
	<u>\$107,596,045</u>	<u>\$131,829,832</u>	<u>\$750,000</u>	<u>\$ 75,622</u>	<u>\$240,251,499</u>

There are a number of limitations and restrictions contained in the general obligation bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2010.

Advance Refunding of Debt

On April 15, 2005, the San Benito Consolidated Independent School District issued Unlimited Tax Refunding Bonds, Series 2005.

The proceeds of the bonds were used to refund the \$29,880,000 of outstanding Unlimited Tax School Building Bonds which include portions of Series 1996, 1998 and 2000, and to pay for the cost of issuing the bonds. The refunded amount consisted of bonds with maturities ranging from 2005 through 2025.

The advance refunding met the requirements of an in-substance debt defeasance and thus, the portions of the Series 1996, 1998 and 2000 bonds were removed from the books even though the balance of \$27,235,000 remains outstanding at August 31, 2010.

Advanced Refunding

In May 2010, the District advance refunded \$3,535,000, Series 2000 Bonds. The District issued \$3,505,000 in current interest bonds and \$30,000 in capital appreciation bonds (CAB) to provide resources to cover costs of issuance to purchase qualifying securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of the refunded debt. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the accounts of the District. The refunding bonds were sold at a premium in the amount of \$195,371 and the current interest bonds carry an original issue discount totaling \$66,995. The bond issuance costs were \$88,592. The capital appreciation bonds of \$30,000 will mature at \$240,000 ranging from the fiscal years of 2011 to 2016. Interest rates for CAB range from .90% to 2.62%. The current interest bonds mature in years 2017 to 2019 and interest rates vary from 2.52% to 2.91%.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE H - LONG-TERM OBLIGATIONS – Continued

The advance refunding was undertaken to reduce total debt service payments over the next 10 years by \$419,789 and to obtain an economic gain (difference between the present value of the debt service payment of the refunded and refunding bonds) of \$373,832. At August 31, 2010, \$3,535,000 of outstanding revenue bonds are considered defeased.

Maintenance Tax Note

In March 2010, the District passed a resolution to borrow \$750,000. The District issued, through Frost Bank, The San Benito CISD \$750,000 Maintenance Tax Note for the purpose of re-turfing the District's Bobby Morrow Stadium. The note bears interest at 3.29% and matures in five equal installments of \$165,124 beginning on April 2011 and ending in April 2015. The balance of the note at August 31, 2010 was \$750,000.

Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of August 31, 2010, as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$101,983	\$ 10,389
2012	<u>106,622</u>	<u>5,320</u>
	<u>\$208,605</u>	<u>\$ 15,709</u>

NOTE I – SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT PUBLIC FACILITY CORPORATION

The Public Facility Corporation is a public non-profit corporation, the creation of which was sponsored by the District pursuant to the Public Facility Corporation Act, Article 717s, Vernon's Texas Civil Statutes, as amended (the "Public Facility Corporation Act"). The Public Facility Corporation Act authorizes the creation and utilization by school districts of public facility corporations to issue bonds to provide for the acquisition, construction, rehabilitation, renovation, repair, equipping, furnishing and placing in service of public facilities of its governmental sponsor and further authorizes the governmental sponsor to incur lease purchase obligations in favor of the corporation to serve as security for the bonds issued by the Public Facility Corporation.

Lease revenue bonds in the principal amount of \$4,500,000 were issued on February 13, 2006, pursuant to a resolution by the Board of Directors of the Public Facility Corporation and a Master Trust Indenture dated as of February 1, 2007, (the "Trust Indenture") between the Public Facility Corporation and Compass Bank, as trustee to finance, for the benefit of the District, the construction of a new multi-purpose stadium.

To accomplish the financing, the Public Facility Corporation and the District entered into a "Lease With An Option to Purchase Relating to the San Benito Consolidated Independent School District Bobby Morrow Stadium," pursuant to the terms of which the District will pay to the Public Facility Corporation such lease payments at such times and in such amounts as will be required to pay the principal of premium, if any, and interest on the lease revenue bonds as they become due.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE J - REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Capital Projects Fund	Other Governmental Funds	Total Governmental Fund	Internal Service Funds
Property taxes	\$ 8,944,290	\$ -	\$1,091,949	\$10,036,239	\$ -
Food sales	439,177	-	-	439,177	-
Investment income	26,456	60,826	22,079	109,361	1,500
Penalties and interest	300,911	-	46,932	347,843	-
Co-curricular activities	126,290	-	-	126,290	-
Other	358,887	-	5,678	364,565	8,323,842
	<u>\$10,196,011</u>	<u>\$ 60,826</u>	<u>\$1,166,638</u>	<u>\$11,423,475</u>	<u>\$8,325,342</u>

NOTE K - UNEARNED REVENUE

	Unavailable	Unearned	Total
Property taxes	\$2,571,603	\$ -	\$2,571,603
Foundation revenues	-	2,582,679	2,582,679
Grants and other	-	290,996	290,996
	<u>\$2,571,603</u>	<u>\$2,873,675</u>	<u>\$5,445,278</u>

NOTE L - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances at August 31, 2010 were:

Due From	Due To	
Nonmajor Governmental Fund	General Fund	\$5,697,301
General Fund	Internal Service	2,490,872
General Fund	Nonmajor Governmental Fund	53,268
Nonmajor Governmental Funds	Trust and Agency Funds	109,951
General Fund	Trust and Agency Funds	844,736
		<u>9,196,128</u>
General Fund	Internal Service Fund	173,307
General Fund	Trust and Agency Funds	10,425
Total due from other funds		<u>\$9,379,860</u>
General Fund	Nonmajor Governmental Fund	\$5,697,301
Nonmajor Governmental Fund	General Fund	53,268
Funds within the General Fund	General Fund	89,258
		<u>5,839,827</u>
Internal Service Fund	General Fund	2,490,872
Trust and Agency Funds	Nonmajor Governmental Funds	109,951
General Fund	Trust and Agency Funds	939,210
Total due to other funds		<u>\$9,379,860</u>

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE L - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS - Continued

The remaining balances resulted from a routine lag between the dates that transactions such as year-end payroll accruals and worker's compensation adjustment payments, are made between the funds.

All amounts are scheduled to be repaid within one year.

Interfund transfers out during the year ended August 31, 2010 were as follows:

<u>Transfers Out</u>	<u>Transfers In</u>	
General Fund	Nonmajor Fund	\$ 8,774
General Fund	Internal Service Funds	<u>2,250,387</u>
		<u>\$2,259,161</u>

NOTE M - GENERAL FUND FEDERAL SOURCE REVENUES

Federally financed programs are generally accounted for in the Other Governmental Funds of the District, except for indirect costs charged to federal programs which are accounted for in the General Fund as prescribed by the TEA and certain direct revenues. The District recognized in the General fund such revenues for the year ended August 31, 2010, from various federal sources as follows:

<u>Programs or Source</u>	<u>CFDA Number</u>	<u>Amount</u>
National School Lunch Program	10.555	\$4,328,813
School Breakfast Program	10.553	1,828,649
Commodity Supplemental Food Program	10.550	368,015
SHARS/Medicaid	N/A	1,014,754
Medicaid Administrative Claim	N/A	41,943
ROTC	12.113	53,445
Payment in Lieu of Taxes		4,407
<i>Indirect Costs</i>		
ESEA Title I, School Improvement	84.369A	6,159
ESEA Title I, Part A – Improving Basic Programs	84.010A	102,525
ESEA Title I, Part C – Education of Migratory Children	84.011	14,874
ESEA Title II, Part A – Teacher and Principal Training and Recruitment	84.367A	16,822
ESEA Title II, Part D – Enhancing Education Through Technology	84.318X	413
ESEA Title III, Part A – English Language Acquisition and Language Enhancement	84.365A	4,803
ESEA Title IV, Part A – Safe and Drug Free Schools and Communities Act	84.186A	823
ESEA Title IV, Part B – 21 st Century Community Learning Centers	84.287C	13,123
Title II, Part D – Vision 2020 Grant	84.318X	9,053
IDEA – B Formula – ARRA	84.391A	10,482
ESEA Title I, Part A – Improving Basic Programs – ARRA	84.389A	32,259
IDEA-B Formula	84.027	42,901
IDEA-B Preschool	84.173	157
Reading First	84.357A	<u>13,391</u>
Total general fund federal revenue		<u>\$7,907,811</u>

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE N – COMPLIANCE AND ACCOUNTABILITY

a. Finance-Related Legal and Contractual Provision

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

The Districts deposits with Frost Bank were undercollateralized for three days during the month of July 2010 totaling \$77,628.

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

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

<u>Fund Name</u>	<u>Amount</u>	<u>Remarks</u>
None noted	None noted	No remarks necessary

NOTE O – COMMITMENTS AND CONTINGENCIES

Construction Commitments

Construction in progress at August 31, 2010 is comprised of the following:

	<u>Estimated Projected Costs</u>	<u>Expended through August 31, 2010</u>	<u>Amount Committed</u>
Veterans Memorial Academy	\$ 6,809,000	\$ 4,453,617	\$ 2,355,383
Miller Jordan Middle School	363,000	292,860	70,140
Ed Downs Elementary	1,499,997	1,119,420	380,577
Sullivan Elementary	5,670,909	5,171,844	499,065
La Paloma Elementary	658,597	218,554	440,043
New Elementary	<u>7,959,000</u>	<u>873,114</u>	<u>7,085,886</u>
	<u>\$22,960,503</u>	<u>\$12,129,409</u>	<u>\$10,831,094</u>

Contingencies

The District is a party to various legal actions, none of which is believed by administration to have a material effect on the financial condition of the District. Accordingly, no provision for losses has been recorded in the accompanying combined financial statements for such contingencies.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE O – COMMITMENTS AND CONTINGENCIES - Continued

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

Obligations under the construction contracts in existence at August 31, 2010 are expected to be liquidated within the following reporting period.

NOTE P - DEFINED BENEFIT PENSION PLAN

Plan description. San Benito Consolidated Independent School District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. State law provides for fiscal year 2008, 2009 and 2010 a state contribution rate of 6.58% and a member contribution rate of 6.4%. 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 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 San Benito Consolidated Independent School District's employees for the year ended August 31, 2008 were \$2,784,810, for the year ended August 31, 2009 were \$3,257,975, and for the year ended August 31, 2010 were \$3,442,166. San Benito Consolidated Independent School District paid additional state contributions for the year ended August 31, 2008 of \$322,308, for the year ended August 31, 2009 of \$316,180, and for the year ended August 31, 2010 of \$411,352, respectively on the portion of the employees' salaries that exceeded the statutory minimum.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE Q - POSTEMPLOYMENT HEALTH BENEFITS FOR PUBLIC SCHOOL EMPLOYEES

Plan Description. The Teacher Retirement System of Texas (TRS) administers the Texas Public School Retired Employees Group Insurance Plan (TRS-Care), a cost-sharing multiple-employer defined benefit OPEB plan, in accordance with Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish basic and optional group coverage for participants.

The TRS-Care program is currently funded on a pay-as-you-go basis and is subject to changes based on available funding. The Texas Legislature determines the funding of benefits and has no continuing obligation to provide benefits beyond each fiscal year. Currently, the benefits of TRS-Care are financed through a combination of retiree premiums and percentage of payroll contributions from active employees, school districts and the State of Texas.

Benefit Provisions and Service Requirements. Retirees can receive a free basic level of coverage and optional coverage is also available. All dependent coverage is optional. Basic coverage is a comprehensive major medical group health insurance plan. Generally, TRS public school retirees with more than 10 years of service and their dependents are eligible for this insurance coverage.

Funding Policy. Funding for the free basic coverage is provided by the program based upon public school district payroll. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2010, 2009 and 2008. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage.

NOTE R - SCHOOL DISTRICT RETIREE HEALTH PLAN

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE R - SCHOOL DISTRICT RETIREE HEALTH PLAN - Continued

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2010, 2009 and 2008. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2010, 2009, and 2008, the State's contributions to TRS-Care were \$89,939, \$89,343, and \$93,267, respectively, the active member contributions were \$3,681,372, \$3,420,275, and \$4,050,229, respectively, and the school district's contributions were \$348,067, \$317,805, and \$316,369, respectively, which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2010, 2009, and 2008, the subsidy payments received by TRS-Care on behalf of the District were \$170,664, \$140,341 and \$118,973 and, respectively.

NOTE S - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2010, the District purchased commercial insurance to cover general liabilities.

State law allows school districts to retain risk through its own risk management program, insure through a commercial carrier, or insure through a public entity risk pool. The District is self-insured for employee medical benefits (including medical and dental). Beginning October 1, 2005, the District contracted with a third-party, American Administrative Group, Inc. to provide administrative claims processing services for employee medical benefits for the District. Beginning September 1, 2004, the District contracted with a third-party administrator, Health Administration Services to provide administrative claims processing services for worker's compensation claims for the District.

The group health insurance program is reported in the Insurance fund, an internal service fund. Workman's compensation insurance programs are reported in the Worker's Compensation fund, an internal service fund. Interfund premiums are paid into the internal service and are based primarily on claims experience and are reported as quasi-external transactions.

Accruals for claims are adjusted on a regular basis based on the latest information available on each case. Claims incurred but not reported have been considered in determining the accrual for claims, and the District's management believes adequate accruals have been provided at August 31, 2010.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

NOTE S - RISK MANAGEMENT - Continued

There were no significant reductions in coverage in the past fiscal year by major category of risk. In addition, there were no insurance settlements exceeding insurance coverage in any of the past three fiscal years.

The District maintains a \$1,000,000 stop-loss policy each for health and worker's compensation self-funded insurance programs.

Changes in the balance of claims liabilities during the past year are as follows:

	August 31,	
	2010	2009
Unpaid claims, beginning of year	\$ 996,898	\$ 864,667
Incurred claims (including IBNR's)	3,714,206	8,090,600
Claim payments	(4,117,964)	(7,958,369)
Unpaid claims, end of fiscal year	\$ <u>593,140</u>	\$ <u>996,898</u>

NOTE T – PRIOR PERIOD ADJUSTMENT

The District recorded adjustments to beginning fund balance of the general fund in the Statement of Revenues, Expenditures and Changes in Fund Balance \$2,697,513 to decrease revenue which was overstated in the prior year due to an overpayment by TEA. The District also recorded adjustments to beginning net assets in the Governmental Fund's Statement of Activities and the Statement of Revenues, Expenses and Changes in Fund Net Assets of the Internal Service Fund totaling \$10,422,766 and \$526,488, respectively, to decrease capital assets which were understated resulting from errors in the general ledger.

**REQUIRED SUPPLEMENTARY
INFORMATION**

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

EXHIBIT G-1

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	\$ 9,467,304	\$ 9,504,701	\$ 10,196,011	\$ 691,310
5800 State Program Revenues	65,623,014	70,780,282	70,070,432	(709,850)
5900 Federal Program Revenues	7,529,058	7,529,058	7,907,811	378,753
5020 Total Revenues	82,619,376	87,814,041	88,174,254	360,213
EXPENDITURES:				
Current:				
0011 Instruction	38,222,250	42,380,004	39,333,184	3,046,820
0012 Instructional Resources and Media Services	1,502,092	1,536,768	1,426,095	110,673
0013 Curriculum and Instructional Staff Development	442,447	468,379	426,176	42,203
0021 Instructional Leadership	1,409,209	1,630,182	1,562,722	67,460
0023 School Leadership	5,171,702	5,127,473	5,021,362	106,111
0031 Guidance, Counseling and Evaluation Services	2,479,668	2,489,466	2,447,981	41,485
0032 Social Work Services	338,502	353,195	329,074	24,121
0033 Health Services	826,691	968,279	864,433	103,846
0034 Student (Pupil) Transportation	1,003,539	1,127,625	831,647	295,978
0035 Food Services	7,117,258	7,182,485	6,612,232	570,253
0036 Extracurricular Activities	2,685,305	2,848,141	2,682,523	165,618
0041 General Administration	3,167,475	3,063,557	2,864,674	198,883
0051 Facilities Maintenance and Operations	13,959,454	15,181,535	14,468,757	712,778
0052 Security and Monitoring Services	1,464,126	1,924,485	1,631,740	292,745
0053 Data Processing Services	125,000	152,017	149,456	2,561
0061 Community Services	181,712	185,023	177,113	7,910
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	277,373	272,673	262,155	10,518
0072 Debt Service - Interest on Long Term Debt	204,304	209,004	208,998	6
0073 Debt Service - Bond Issuance Cost and Fees	5,000	5,000	3,800	1,200
Capital Outlay:				
0081 Facilities Acquisition and Construction	306,000	1,504,725	1,457,198	47,527
Intergovernmental:				
0095 Payments to Juvenile Justice Alternative Ed. Prg.	25,000	60,000	47,653	12,347
0099 Other Intergovernmental Charges	-	144,577	114,005	30,572
6030 Total Expenditures	80,914,107	88,814,593	82,922,978	5,891,615
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	1,705,269	(1,000,552)	5,251,276	6,251,828
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	-	-	46,771	46,771
7914 Non-Current Loans	-	750,000	750,000	-
7949 Other Resources	-	-	1,617,500	1,617,500
8911 Transfers Out (Use)	-	(2,803,649)	(2,259,161)	544,488
7080 Total Other Financing Sources (Uses)	-	(2,053,649)	155,110	2,208,759
1200 Net Change in Fund Balances	1,705,269	(3,054,201)	5,406,386	8,460,587
0100 Fund Balance - September 1 (Beginning)	13,066,802	13,066,802	13,066,802	-
1300 Prior Period Adjustment	-	-	(2,697,513)	(2,697,513)
3000 Fund Balance - August 31 (Ending)	\$ 14,772,071	\$ 10,012,601	\$ 15,775,675	\$ 5,763,074

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED AUGUST 31, 2010

Stewardship, compliance, and accountability

Budgetary information

The Board adopts an “appropriated budget” on a basis consistent with GAAP for the general fund, debt service fund and food service fund. At a minimum, the District is required to present the original and the final amended budgets for revenues and expenditures compared to actual revenues and expenditures for these three funds.

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

- Prior to August 20 for a fiscal year start date of September 1, the District prepares a budget based on the modified zero-based budgeting concept for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- After one or more budget workshops with the Board, a meeting is called for the purpose of adopting the proposed budget. At least ten days but not more than 30 days public notice of the meeting is required.
- Prior to August 31st for a fiscal year start date of September 1, the Board legally adopts the budget for the general fund, debt service fund and food service fund.
- After the budget for the above listed funds is approved, any amendment that causes an increase or decrease in a fund or functional spending category or total revenue or other resources object category requires Board approval prior to the fact. These amendments are presented to the Board at its regular monthly meeting and are reflected in the official minutes. Because the District has a policy of careful budgetary control, several budgetary amendments were necessary throughout the year.
- Expenditure budgets are controlled at the expenditure functional and object level by the appropriate budget manager (principal, department director or divisional administrator). Budget managers may authorize transfers within functional and organizational categories that do not affect the total functional and organizational appropriation. All budget appropriations lapse at year-end.

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve that portion of the applicable appropriation, is used in all governmental funds. Encumbrances outstanding at year-end are commitments that do not constitute expenditures or liabilities. Since appropriations lapse at the end of each year, outstanding encumbrances are appropriately provided for in the subsequent fiscal year’s budget to provide for the liquidation of the prior commitments.

Actual state revenues were more than budgeted state revenues due to an increase in average daily attendance. Instructional expenditures were less than budgeted amounts because amounts are budgeted for various programs including payroll but not actually spent during the year.

T.E.A. REQUIRED SCHEDULES

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2010

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2001 and prior years	Various	Various	\$ Various
2002	1.311900	0.158100	459,437,771
2003	1.131500	0.156500	496,562,820
2004	1.354000	0.144000	536,985,918
2005	1.425400	0.144000	582,585,473
2006	1.445000	0.144000	636,639,688
2007	1.320000	0.144000	712,144,013
2008	1.040000	0.200000	738,640,614
2009	1.040000	0.264900	775,765,108
2010 (School year under audit)	1.040000	0.264900	808,526,943
100 TOTALS			

(10) Beginning Balance 9/1/2009		(20) Current Year's Total Levy		(31) Maintenance Collections		(32) Debt Service Collections		(40) Entire Year's Adjustments		(50) Ending Balance 8/31/2010	
\$	536,619	\$	-	\$	12,897	\$	3,589	\$	(124,051)	\$	396,082
	75,116		-		5,841		703		(3,908)		64,664
	68,767		-		5,566		663		(1,747)		60,791
	126,052		-		13,117		1,395		204		111,744
	184,691		-		26,770		2,704		2,405		157,622
	172,789		-		35,073		3,494		5,819		140,041
	254,051		-		72,944		7,948		6,394		179,553
	464,392		-		142,661		27,431		(31,654)		262,646
	946,833		-		352,240		89,602		(42,159)		462,832
	-		10,298,051		8,287,463		954,436		(34,793)		1,021,359
\$	2,829,310	\$	10,298,051	\$	8,954,572	\$	1,091,965	\$	(223,490)	\$	2,857,334

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

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

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collections	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ -	\$ 101,967	\$ 248,274	\$ 1,224,949	\$ 540,290	\$ -	\$ 2,115,480
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	13,525	-	-	13,525
6211	Legal Services	-	-	145,265	-	71,822	-	217,087
6212	Audit Services	-	-	-	28,500	-	-	28,500
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	114,005	-	-	-	-	114,005
621X	Other Professional Services	-	-	-	58,352	3,139	66,646	128,137
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	22,111	-	-	-	22,111
6240	Contr. Maint. and Repair	-	-	-	-	11,225	-	11,225
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	4,147	4,998	21,414	10,027	-	40,586
6290	Miscellaneous Contr.	556	-	-	37,950	1,498	-	40,004
6320	Textbooks and Reading	-	-	1,546	325	238	-	2,109
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	-	9,189	9,886	55,059	109,854	-	183,988
6410	Travel, Subsistence, Stipends	30,369	4,686	7,605	4,683	5,510	-	52,853
6420	Ins. and Bonding Costs	18,280	200	-	7,977	-	-	26,457
6430	Election Costs	3,388	-	-	-	-	-	3,388
6490	Miscellaneous Operating	39,620	3,651	3,421	62,357	36,952	-	146,001
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	31,868	31,868
6000	TOTAL	\$ 92,213	\$ 237,845	\$ 443,106	\$ 1,515,091	\$ 790,555	\$ 98,514	\$ 3,177,324

Total expenditures/expenses for General and Special Revenue Funds:

(9) \$ 109,156,758

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600) (10) \$ 2,170,810

Total Debt & Lease(6500) (11) 474,953

Plant Maintenance (Function 51, 6100-6400) (12) 14,385,430

Food (Function 35, 6341 and 6499) (13) 2,913,144

Stipends (6413) (14) 18,098

Column 4 (above) - Total Indirect Cost 1,515,091

SubTotal:

21,477,527

Net Allowed Direct Cost

\$ 87,679,231

CUMULATIVE

Total Cost of Buildings before Depreciation (1520) (15) \$ 156,579,502

Historical Cost of Building over 50 years old (16) \$ -

Amount of Federal Money in Building Cost (Net of #16) (17) \$ -

Total Cost of Furniture & Equipment before Depreciation (1530 & 1540) (18) \$ 16,041,523

Historical Cost of Furniture & Equipment over 16 years old (19) \$ -

Amount of Federal Money in Furniture & Equipment (Net of #19) (20) \$ -

(8) NOTE A: \$149,456 in Function 53 expenditures are included in this report on administrative costs.

\$114,005 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

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

UNAUDITED

1	Total General Fund Balance as of 8/31/10 (Exhibit C-1 object 3000 for the General Fund Only)	\$ 15,775,675
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$ 545,889
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund Only)	1,968,241
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.	14,720,758
6	Estimate of delayed payments from state sources (58xx).	-
7	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount.	-
8	Estimate of delayed payments from federal sources (59xx)	-
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	-
10	Adjustment to meet Board Policy	-
11	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9+10)	<u>17,234,888</u>
12	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 11)	<u>\$ (1,459,213)</u>

SAN BENITO CONSOLIDATED 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	\$ 2,046,988	\$ 2,046,988	\$ 1,160,960	\$ (886,028)
5800	State Program Revenues	7,317,056	7,253,383	7,381,055	127,672
5020	Total Revenues	9,364,044	9,300,371	8,542,015	(758,356)
EXPENDITURES:					
Debt Service:					
0071	Debt Service - Principal on Long Term Debt	4,490,000	4,490,000	3,085,000	1,405,000
0072	Debt Service - Interest on Long Term Debt	4,869,044	4,869,044	6,222,252	(1,353,208)
0073	Debt Service - Bond Issuance Cost and Fees	5,000	5,000	91,570	(86,570)
6030	Total Expenditures	9,364,044	9,364,044	9,398,822	(34,778)
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(63,673)	(856,807)	(793,134)
OTHER FINANCING SOURCES (USES):					
7911	Capital Related Debt Issued (Regular Bonds)	4,610,000	4,610,000	3,808,758	(801,242)
8949	Other (Uses)	(4,610,000)	(4,610,000)	(3,708,775)	901,225
7080	Total Other Financing Sources (Uses)	-	-	99,983	99,983
1200	Net Change in Fund Balances	-	(63,673)	(756,824)	(693,151)
0100	Fund Balance - September 1 (Beginning)	2,164,634	2,164,634	2,164,634	-
3000	Fund Balance - August 31 (Ending)	\$ 2,164,634	\$ 2,100,961	\$ 1,407,810	\$ (693,151)

FEDERAL AWARDS SECTION

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

To the Board of Trustees
San Benito Consolidated Independent School District

Members of the Board:

We have audited the financial statements of the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information of San Benito Consolidated Independent School District as of and for the year ended August 31, 2010, which collectively comprise San Benito Consolidated Independent School District's basic financial statements and have issued our report thereon dated January 20, 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 San Benito Consolidated Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Benito Consolidated Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the San Benito Consolidated Independent School District's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies over financial reporting, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies in internal control over financial reporting as 10-1. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, just important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Benito Consolidated 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* and which are described in the accompanying schedule of findings and questioned costs as item 10-2.

We noted certain other matters that we reported to management of San Benito Consolidated Independent School District in a separate letter dated January 20, 2011.

San Benito Consolidated Independent School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit San Benito Consolidated Independent School District's response and, accordingly, we express no opinion on it.

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

A handwritten signature in black ink that reads "Long Chilton, LLP". The signature is written in a cursive, flowing style.

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
January 20, 2011

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

To the Board of Trustees
San Benito Consolidated Independent School District

Members of the Board:

Compliance

We have audited San Benito Consolidated Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of San Benito Consolidated Independent School District's major federal programs for the year ended August 31, 2010. San Benito Consolidated Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of San Benito Consolidated Independent School District's management. Our responsibility is to express an opinion on San Benito Consolidated Independent School District's compliance based on our audit.

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

In our opinion, San Benito Consolidated Independent School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2010.

Internal Control Over Compliance

Management of San Benito Consolidated Independent School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered San Benito Consolidated Independent School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of San Benito Consolidated Independent School District's internal control over compliance.

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

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

San Benito Consolidated Independent School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit San Benito Consolidated Independent School District's responses and, accordingly, we express no opinion on the responses.

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

A handwritten signature in black ink that reads "Long Chilton, LLP". The signature is written in a cursive, flowing style.

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
January 20, 2011

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2010

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiencies identified that are not considered to be material weaknesses? ☒ yes ☐ no

Noncompliance material to financial statements noted? ☐ yes ☒ no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ yes ☒ no
- Significant deficiencies identified that are not considered to be material weakness(es)? ☐ yes ☒ no

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

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

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

Title I, Part A Cluster:

ESEA Title I, Part A – Improving Basic Programs

ESEA Title I, Part A – Improving Basic Programs - ARRA

Special Education Cluster:

IDEA-B Formula

IDEA-B Preschool

IDEA-B Formula – ARRA

IDEA-B Preschool – ARRA

Educational Technology State Grants Cluster:

Enhancing Education Through Technology Program

Enhancing Education Through Tech. Program – ARRA

ARRA of 2009 Title XIV State Fiscal Stabilization Fund

Title II, Part A – Teacher and Principal Training and Recruitment

Texas Reading First

Safe Schools/Healthy Student Grant

84.010

84.389

84.027

84.173

84.391

84.392

84.318

84.386

84.394

84.367A

84.357A

84.184L

Dollar threshold used to distinguish between Type A and Type B programs: \$896,360

Auditee qualified as low-risk auditee? ☒ yes ☐ no

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

**Section II – Findings Relating to the Financial Statement Audit as Required to be
Reported in Accordance with Generally Accepted Government Auditing Standards**

A. Significant Deficiencies in Internal Control

<u>PROGRAM DESCRIPTION</u>	<u>DESCRIPTION</u>
Schedule Reference Number: (10-1)	Prior Period Adjustment
Criteria:	Any error in the financial statements of a prior period discovered subsequent to their issuance should be reported by restating the beginning fund balance/net assets.
Condition Found:	The District posted prior period adjustments to decrease beginning fund balance of the general fund totaling \$2,697,513 which was overstated in the prior year resulting from an overpayment by TEA. The District also recorded adjustments to beginning net assets in the Governmental Fund's Statement of Activities and the Statement of Revenues, Expenses and Changes in Fund Net Assets of the Internal Service Fund totaling \$10,422,766 and \$526,488, respectively, to decrease capital assets which were understated.
Questioned Costs/Basis:	Not applicable
Context:	Beginning fund balance in the general fund was overstated by \$2,697,513 and Government-wide net assets was overstated by \$10,422,766 and Internal Service Fund net assets were understated by \$526,488
Effect:	The District's fund balance and net assets are overstated/understated.
Recommendation:	With a change in personnel, we recommend that the new accountant continue to reconcile and test the capital asset schedule for errors on a regular basis. Revenues received during the year should continue to be monitored on a regular basis.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED AUGUST 31, 2010

**Section II – Findings Relating to the Financial Statement Audit as Required to be
Reported in Accordance with Generally Accepted Government Auditing Standards -
Continued**

B. Compliance Findings

<u>PROGRAM DESCRIPTION</u>	<u>DESCRIPTION</u>
Schedule Reference Number: (10-2)	Collateralization of Deposits
Criteria:	The District's Investment Policy and statutory requirements require the District deposits exceeding amounts covered by the FDIC be secured by eligible security and must not be less than the amount of the deposit of public funds
Condition Found:	The District's deposits with Frost Bank were undercollateralized for three days during the month of July 2010 totaling \$77,628.
Questioned Costs/Basis:	Not applicable
Context:	While reviewing the District's compliance with its investment policy and the Public Funds Investment Act we noted that the District was under collateralized for three days during the month of July 2010.
Effect:	The District may not be in compliance with its investment policy and the Public Funds Investment Act for those three days in July 2010.
Recommendation:	We recommend that the District continue to monitor its collateralization of deposits and its compliance with District policy and the Public Funds Investment Act

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS – CONTINUED
SCHEDULE OF STATUS OF PRIOR FINDINGS
YEAR ENDED AUGUST 31, 2010

None that were required to be reported.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2010

PROGRAM DESCRIPTION

CORRECTIVE ACTION PLAN

Schedule Reference Number: (10-1)

Prior Period Adjustments

Corrective Action Plan:

The correction to fund balance in the general fund resulted from payments received through the TEA payment report that were labeled prior year. The correction to capital assets was a result of an error that occurred in the maintenance of the detailed schedule of capital assets; however, with a change in personnel the error was discovered and corrected immediately.

Schedule Reference Number: (10-2)

Collateralization of Deposits

Corrective Action Plan:

The District will continue to work closely with Frost Bank to ensure adequate collateralization.

Contact Person:

Emma McCall
Business Manager

Implementation Time Frame:

Ongoing

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

EXHIBIT K-1

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. DEPARTMENT OF DEFENSE			
<u>Direct Programs</u>			
ROTC	12.113		\$ 53,445
Total Direct Programs			\$ 53,445
TOTAL DEPARTMENT OF DEFENSE			\$ 53,445
U.S. DEPARTMENT OF EDUCATION			
<u>Direct Programs</u>			
Safe Schools / Healthy Student Grant	84.184L	Q184L0006-00	\$ 1,384,933
Total Direct Programs			\$ 1,384,933
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs *	84.010A	10610101031912	\$ 6,360,345
ESEA, Title I, Part A - Improving Basic Programs *	84.010A	11610101031912	105,550
Total CFDA Number 84.010A			6,465,895
ESEA, Title I, Part C - Migratory Children	84.011	10615001031912	860,469
ESEA, Title I, Part C - Migratory Children	84.011	11615001031912	56,273
Total CFDA Number 84.011			916,742
IDEA - Part B, Formula *	84.027	106600010319126600	2,221,094
IDEA - Part B, Formula *	84.027	116600010319126600	69,204
Total CFDA Number 84.027			2,290,298
Career and Technical - Basic Grant	84.048	10420006031912	221,221
Career and Technical - Basic Grant	84.048	10420006031912	1,274
Total CFDA Number 84.048			222,495
IDEA - Part B, Preschool *	84.173	106610010319126000	8,738
IDEA - Part B, Preschool *	84.173	116600010319126600	1,641
Total CFDA Number 84.173			10,379
ESEA Title IV, Pt. A - Safe and Drug-Free Schools	84.186A	10691001031912	51,468
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287	106950137110038	915,800
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287	116950137110038	54,104
Total CFDA Number 84.287			969,904
Title II, Part D -Enhancing Ed. Through Tech. *	84.318	10630001031912	58,927
GEAR UP	84.334S	P334A050083-B	167,358
Reading First	84.357	106455017110053	745,889
Title III, Part A - English Language Acquisition	84.365A	10671001031912	315,716
Title III, Part A - English Language Acquisition	84.365A	11671001031912	2,350
Total CFDA Number 84.365A			318,066
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	10694501031912	751,999
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	11694501031912	36,632
Total CFDA Number 84.367A			788,631
Improving Academic Achievement - State Assessments	84.369	106300027110022	161,568
Title II D Enhancing Ed. Through Tech. - ARRA *	84.386	10553001031912	60,505
ESEA, Title I, A - ARRA - Imp. Basic Programs *	84.389	10551001031912	2,715,642
IDEA, Part B, Formula - ARRA *	84.391	10554001031912	650,187
IDEA, Part B, Preschool - ARRA *	84.392	10555001031912	10,944
Title XIV, State Fiscal Stabilization Fund - ARRA	84.394	10557001031912	5,130,445
Total Passed Through State Department of Education			\$ 21,735,343

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

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
TOTAL DEPARTMENT OF EDUCATION			\$ 23,120,276
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
School Breakfast Program *	10.553		\$ 1,828,649
National School Lunch Program - Cash Assistance *	10.555		4,328,813
National School Lunch Prog. - Non-Cash Assist *	10.555		368,015
Total CFDA Number 10.555			4,696,828
Total Passed Through the State Department of Agriculture			\$ 6,525,477
TOTAL DEPARTMENT OF AGRICULTURE			\$ 6,525,477
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 29,699,198

*Clustered Programs as required by Compliance Supplement June, 2010

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
 YEAR ENDED AUGUST 31, 2010

NOTE A - BASIS OF PRESENTATION

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

NOTE B – PROGRAM REPORTING

SHARS, Medicaid, ROTC, payments in lieu of taxes and \$267,785 of indirect cost are accounted for in the general fund. The National School Lunch Program, School Breakfast Program Commodity Supplemental Food Program, and Summer Feeding Program are also accounted for in the General Fund. Expenditures are not specifically attributable to these revenues and are shown on this schedule in an amount equal to revenue for balancing purposes only.

Reconciliation

Amount of federal revenues Exhibit C-3	\$30,760,302
Less amounts not considered to be federal awards, excluded on the Schedule of Expenditures of Federal Awards:	
School Health and Related Service Program (SHARS)	1,014,754
Medicaid Administrative Claim (MAC)	41,943
Payments in lieu of taxes	<u>4,407</u>
Total expenditures of federal awards, per the Schedule of Expenditures of Federal Awards (Exhibit K-1)	<u>\$29,699,198</u>

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
 AS OF AUGUST 31, 2010

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the District receive a clean audit? Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosures in the Annual Financial Report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	\$28,876