

AVERY INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
AUGUST 31, 2009

AVERY INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2009

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CERTIFICATE OF BOARD

Avery Independent School District
Name of School District

Red River
County

194-902
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) _____ approved _____ disapproved for the year ended August 31, 2009 at a meeting of the Board of Trustees of such school district on the _____ day of January, 2010.

Signature of Board Secretary

Signature of Board President

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

**UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER
SUPPLEMENTARY INFORMATION**

Independent Auditor's Report

Board of Trustees
Avery Independent School District
150 San Antonio Street
Avery, Texas 75554

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Avery Independent School District (the District) as of and for the year ended August 31, 2009, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Avery Independent School District as of August 31, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and budgetary comparison information on pages 4 through 10 and page 41 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2010, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Avery Independent School District's basic financial statements. Although the combining fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements, they have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-4. Except for Exhibit J-3 (Cash Flow and the Optimum Fund Balance Calculation Schedule) which is marked **UNAUDITED** and on which we express no opinion, these schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



WILF & HENDERSON, P.C.
Certified Public Accountants

January 19, 2010

AVERY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the management of Avery Independent School District (the "District"), discuss and analyze the District's financial performance for the fiscal year ended August 31, 2009. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The assets of the District's governmental activities exceeded its liabilities at the close of the most recent period by \$3,389,373 (net assets). Of this amount, \$1,394,300 unrestricted net assets may be used to meet the District's ongoing obligations.
- At the end of the current fiscal year, the District's General Fund reported a fund balance this year of \$1,302,446. The fund balance increased by \$59,440 during the current fiscal year.

USING THIS ANNUAL REPORT

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

Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The proprietary fund statements provide financial information about the internal service fund that reflects transactions in the self-funded worker's compensation fund. The fiduciary statements provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

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

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

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

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

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

In the Statement of Net Assets and the Statement of Activities, we presented the following kind of activity:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's funds can be divided into these two categories:

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

* Proprietary Funds – This fund accounts for revenues and expenses related to services provided to organizations inside the District. Such services are on a cost reimbursement basis. The District's Internal Service Fund is a self-funded worker's compensation risk pool.

* Fiduciary Funds – This fund accounts for resources held for the benefit of parties outside the government. The District acts as a trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statement of Fiduciary Net Assets. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

As of August 31, 2009, the District's assets exceeded liabilities by \$3,389,373, of which \$1,993,752 of the total net assets represents the investment in capital assets less any related debt used to acquire those assets that are still outstanding, \$1,321 of the total net assets represents resources that are subject to restrictions on how they may be used and the remaining balance of total net assets of \$1,394,300 represents the unrestricted net assets, which is the part of the net assets that can be used to finance day-to-day operations without constraints established by debt, or other legal requirements. Net assets of the District's governmental activities increased from \$3,340,486 to \$3,389,373. This increase in governmental net assets was primarily the result of an inflow of cash from cancellation of sale of Weighted Average Daily Attendance (WADA) in Fiscal Year 2008 and the resultant refunding cash flows from former Chapter 41 partners and the Texas Education Agency (TEA).

Table I
Avery Independent School District

NET ASSETS

	Governmental Activities 2009	Governmental Activities 2008	Total \$ Change	Total % Change
Current and other assets	\$ 1,732,968	\$ 1,517,379	215,589	14.21%
Capital assets	2,695,607	2,788,159	(92,552)	-3.32%
Total assets	<u>4,428,575</u>	<u>4,305,538</u>	<u>123,037</u>	<u>2.86%</u>
Other liabilities	337,347	182,482	154,865	84.87%
Long-term liabilities outstanding	701,855	782,570	(80,715)	-10.31%
Total liabilities	<u>1,039,202</u>	<u>965,052</u>	<u>74,150</u>	<u>7.68%</u>
Net Assets:				
Invested in capital assets, net of related debt	1,993,752	2,005,589	(11,837)	-0.59%
Restricted	1,321	3,364	(2,043)	-60.73%
Unrestricted	1,394,300	1,331,533	62,767	4.71%
Total net assets	<u>\$ 3,389,373</u>	<u>\$ 3,340,486</u>	<u>48,887</u>	<u>1.46%</u>

Table II
Avery Independent School District
CHANGES IN NET ASSETS

	Governmental Activities 2009	Governmental Activities 2008	Total \$ Change	Total % Change
Revenues:				
Program Revenues:				
Charges for services	\$ 135,227	\$ 87,268	47,959	54.96%
Operating grants and contributions	620,605	619,600	1,005	0.16%
Capital grants and contributions	-	9,671	(9,671)	-100.00%
General Revenues:				
Property taxes	412,682	466,037	(53,355)	-11.45%
State Aid - Formula Grant	2,816,958	2,569,692	247,266	9.62%
Investments earnings	24,147	66,134	(41,987)	-63.49%
Other general revenues	78,257	41,952	36,305	86.54%
Total Revenues	<u>4,087,876</u>	<u>3,860,354</u>	<u>227,522</u>	<u>5.89%</u>
Expenses:				
Instruction	2,196,546	2,224,790	(28,244)	-1.27%
Instructional Resources and Media Services	66,387	67,652	(1,265)	-1.87%
Curriculum and Staff Development	4,074	2,576	1,498	58.15%
Instructional and School Leadership	305,619	294,804	10,815	3.67%
Guidance, Counseling and Evaluation Services	56,682	55,446	1,236	2.23%
Health Services	49,740	46,874	2,866	6.11%
Student (Pupil) Transportation	145,911	155,744	(9,833)	-6.31%
Food Services	269,006	249,089	19,917	8.00%
Cocurricular/Extracurricular Activities	139,742	114,375	25,367	22.18%
General Administration	281,283	247,121	34,162	13.82%
Plant Maintenance and Operations	317,629	355,947	(38,318)	-10.77%
Security and Monitoring Services	26,172	32,176	(6,004)	-18.66%
Data Processing Services	54,207	54,689	(482)	-0.88%
Debt Service	36,052	30,530	5,522	18.09%
Payments to Fiscal Agents/Member Districts of SSA	89,939	116,318	(26,379)	-22.68%
Total Expenses	<u>4,038,989</u>	<u>4,048,131</u>	<u>(9,142)</u>	<u>-0.23%</u>
Increase (Decrease) in Net Assets	48,887	(187,777)	236,664	126.03%
Net Assets Beginning of Year	<u>3,340,486</u>	<u>3,528,263</u>	<u>(187,777)</u>	<u>-5.32%</u>
Net Assets End of Year	<u>\$ 3,389,373</u>	<u>\$ 3,340,486</u>	<u>48,887</u>	<u>1.46%</u>

The District increased net assets by \$48,887. The total cost of all governmental activities was \$4,038,989. The amount of these activities that our taxpayers paid for through property taxes was \$412,682 or 10.1% of total revenues. The District's state funding increased because Average Daily Attendance (ADA) increased from 387 at the end of FY 2008 to 397 at the end of FY 2009. The Texas Education Agency also refunded fees charged in prior fiscal years for participation in Sale of WADA agreements; these settle-up payments were received in fiscal year 2009.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

Governmental Funds

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unreserved, undesignated fund balance* may serve as a useful measure of the District's net resources available for spending at the end of a fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$1,303,767, an increase of \$57,397. Approximately 78.2 percent of the combined ending fund balance constitutes *unreserved, undesignated fund balance*. The remainder of fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed (a) for food services \$1,081, (b) for other state and federal programs \$240 and (c) for capital expenditures for equipment \$282,900.

The General Fund is the primary operating fund of the District. At the end of the current fiscal year, unreserved, undesignated fund balance of the General Fund was \$1,019,546. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved, undesignated fund balance to the total fund expenditures. Unreserved, undesignated fund balance represents 29.6 percent of the total General Fund expenditures,

The fund balance of the District's General Fund increased by \$59,440 during the current fiscal year. The General Fund transferred \$90,588 to subsidize the Athletic Fund and \$8,000 to subsidize the Food Service Fund during the current year.

Other funds composed of the Special Revenue Funds have a total fund balance of \$1,321. The fund balance is reserved for food services \$1,081 and for other state and federal programs \$240.

BUDGETARY HIGHLIGHTS

Over the course of the year, the District recommended and the Board approved certain revisions to budgeted appropriations as necessary.

General Fund:

(Decrease) in revenues - local & intermediate sources	(3,730)
(Decrease) in revenues - state program revenues	(85,974)
(Decrease) in revenues - federal program revenues	(4,300)
Decrease in expenditures - instruction, instructional resources & media services	175,243
Decrease in expenditures - school leadership	1,768
(Increase) in expenditures - guidance counseling & health services	(172)
Decrease in expenditures - student (pupil) transportation	12,925
Decrease in expenditures - cocurricular/extracurricular activities	13,454
(Increase) in expenditures - general administration	(5,650)
Decrease in expenditures - facilities maintenance & operations	20,300
(Increase) in expenditures - security & monitoring services	(9,700)
(Increase) in expenditures - data processing services	(6,905)
Decrease in expenditures - debt service - principal on long-term debt	13,800
Decrease in expenditures - payment to fiscal agent/member districts of SSA	4,990
(Increase) in other financing uses - transfers out	(32,936)
	<u>93,113</u>

Food Service Fund:

Increase in revenue - local & intermediate sources	20,325
Increase in revenue - state program revenues	3,781
Increase in revenue - federal program revenues	14,093
(Increase) in expenditures - food services	(10,063)
Increase in other financing sources - transfers in	32,936
	<u>61,072</u>

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2009, the District had \$2,695,607 (net of accumulated depreciation) invested in a broad range of capital assets, including facilities and equipment for instruction, athletics, administration, and maintenance. Capital asset additions of \$68,339 less depreciation expense of \$160,891 accounted for a net decrease of \$92,552 from the prior year.

The District's 2010 Capital Expenditures Budget includes appropriated expenditures of \$58,700. The district plans to purchase Basketball Practice Shot Equipment (\$5,700), Security Cameras (\$15,000), a Convection Oven and Warmer for the cafeteria (\$18,000) and a School Bus (\$20,000) during the school year 2009-2010.

More detailed information about the District's capital asset activity is presented in Note H to the financial statements.

Debt

At year-end the District had \$701,855 in long-term debt outstanding versus \$782,570 last year. More detailed information about the District's long-term liabilities is presented in Notes I, J, and K to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials support 21st Century Learning in programs currently offered at Avery ISD. Significant factors considered by the School Board in adopting the 2010 budget were the current economic downturn, maximum use of federal stimulus funding for expansion and upgrade of facilities, upgrade of infrastructure to keep abreast of current technology, and rewarding human resources for innovation in 21st Century teaching strategies. The district further expanded its Career and Technology courses and its dual-credit college course curriculum to meet the needs of our community of learners. The Board adopted a Maintenance and Operations tax rate of \$1.04005, which was the rollback rate. The anticipated revenue was projected based on Average Daily Attendance (ADA) of 397.997, which was the ending ADA for the previous school year.

Amounts available for appropriation in the General Fund budget for 2010 total \$3.89 million, which is a decrease of .19 million from the original 2009 budget. The district increased appropriations for co-curricular activities, instruction, staff training and development, campus leadership, health services, district administration, security and monitoring services, data processing services, debt services, and the shared service agreement with Red River County Special Ed Co-Op. Conversely, the district decreased appropriations for library and media services, guidance, counseling, and testing services, student transportation, and plant maintenance and operations. The increases to appropriations in the 2010 budget were largely due to increased cost of human resources.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office at Avery Independent School District, 150 San Antonio Street, Avery, Texas 75554.

BASIC FINANCIAL STATEMENTS

AVERY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2009

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 1,367,139
1220 Property Taxes Receivable (Delinquent)	172,277
1230 Allowance for Uncollectible Taxes	(94,219)
1240 Due from Other Governments	275,280
1290 Other Receivables, net	12,491
Capital Assets:	
1510 Land	106,584
1520 Buildings and Improvements, Net	2,395,293
1530 Furniture and Equipment, Net	193,730
1000 Total Assets	4,428,575
LIABILITIES	
2110 Accounts Payable	25,110
2160 Accrued Wages Payable	89,189
2180 Due to Other Governments	214,338
2200 Accrued Expenses	1,774
2300 Deferred Revenues	6,936
Noncurrent Liabilities	
2501 Due Within One Year	50,868
2502 Due in More Than One Year	650,987
2000 Total Liabilities	1,039,202
NET ASSETS	
3200 Invested in Capital Assets, Net of Related Debt	1,993,752
3820 Restricted for Federal and State Programs	1,321
3900 Unrestricted Net Assets	1,394,300
3000 Total Net Assets	\$ 3,389,373

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

AVERY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2009

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
	Expenses	3	4	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities

Primary Government:

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 2,196,546	\$ 14,157	\$ 431,909	\$ (1,750,480)
12 Instructional Resources and Media Services	66,387	-	1,282	(65,105)
13 Curriculum and Instructional Staff Development	4,074	-	-	(4,074)
23 School Leadership	305,619	-	12,468	(293,151)
31 Guidance, Counseling and Evaluation Services	56,682	-	3,494	(53,188)
33 Health Services	49,740	-	3,329	(46,411)
34 Student (Pupil) Transportation	145,911	-	2,931	(142,980)
35 Food Services	269,006	109,234	148,311	(11,461)
36 Extracurricular Activities	139,742	11,836	1,242	(126,664)
41 General Administration	281,283	-	8,432	(272,851)
51 Plant Maintenance and Operations	317,629	-	4,962	(312,667)
52 Security and Monitoring Services	26,172	-	-	(26,172)
53 Data Processing Services	54,207	-	2,247	(51,960)
72 Debt Service - Interest on Long Term Debt	34,992	-	-	(34,992)
73 Debt Service - Bond Issuance Cost and Fees	1,060	-	-	(1,060)
93 Payments to Fiscal Agent/Member Districts of SSA	89,939	-	-	(89,939)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 4,038,989	\$ 135,227	\$ 620,605	(3,283,157)

Data Control Codes	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		412,682
GC	Grants and Contributions not Restricted		2,816,958
IE	Investment Earnings		24,147
MI	Miscellaneous Local and Intermediate Revenue		78,257
TR	Total General Revenues		3,332,044
CN	Change in Net Assets		48,887
NB	Net Assets--Beginning		3,340,486
NE	Net Assets--Ending		\$ 3,389,373

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

AVERY INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2009

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110	\$ 1,352,191	\$ 1,097	\$ 1,353,288
1220	172,277	-	172,277
1230	(94,219)	-	(94,219)
1240	228,031	47,249	275,280
1260	55,258	23,459	78,717
1290	12,491	-	12,491
1000	<u>\$ 1,726,029</u>	<u>\$ 71,805</u>	<u>\$ 1,797,834</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2110	\$ 25,055	\$ -	\$ 25,055
2160	81,072	8,117	89,189
2170	23,459	55,258	78,717
2180	214,338	-	214,338
2200	1,601	173	1,774
2300	78,058	6,936	84,994
2000	<u>423,583</u>	<u>70,484</u>	<u>494,067</u>
Fund Balances:			
Reserved For:			
3450	-	1,081	1,081
3490	-	240	240
Unreserved Designated For:			
3530	282,900	-	282,900
Unreserved and Undesignated:			
3600	<u>1,019,546</u>	<u>-</u>	<u>1,019,546</u>
3000	<u>1,302,446</u>	<u>1,321</u>	<u>1,303,767</u>
4000	<u>\$ 1,726,029</u>	<u>\$ 71,805</u>	<u>\$ 1,797,834</u>

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

AVERY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
AUGUST 31, 2009

Total Fund Balances - Governmental Funds	\$	1,303,767
1 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 net assets.		13,796
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$4,698,442 and the accumulated depreciation was \$1,910,283. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. At the beginning of the year, these long-term liabilities totaled \$782,570. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets.		2,005,589
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2009 capital outlays and debt principal payments is to increase net assets.		149,054
4 The 2009 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net assets.		(160,891)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net assets.		78,058
19 Net Assets of Governmental Activities	\$	3,389,373

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

AVERY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 537,752	\$ 109,234	\$ 646,986
5800 State Program Revenues	2,973,107	89,373	3,062,480
5900 Federal Program Revenues	-	375,083	375,083
5020 Total Revenues	<u>3,510,859</u>	<u>573,690</u>	<u>4,084,549</u>
EXPENDITURES:			
Current:			
0011 Instruction	1,855,602	315,905	2,171,507
0012 Instructional Resources and Media Services	63,735	-	63,735
0013 Curriculum and Instructional Staff Development	4,074	-	4,074
0023 School Leadership	299,366	-	299,366
0031 Guidance, Counseling and Evaluation Services	56,682	-	56,682
0033 Health Services	48,813	-	48,813
0034 Student (Pupil) Transportation	113,047	-	113,047
0035 Food Services	-	267,828	267,828
0036 Extracurricular Activities	115,582	-	115,582
0041 General Administration	276,993	-	276,993
0051 Facilities Maintenance and Operations	322,440	-	322,440
0052 Security and Monitoring Services	26,172	-	26,172
0053 Data Processing Services	54,207	-	54,207
Debt Service:			
0071 Debt Service - Principal on Long Term Debt	80,715	-	80,715
0072 Debt Service - Interest on Long Term Debt	34,992	-	34,992
0073 Debt Service - Bond Issuance Cost and Fees	1,060	-	1,060
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	89,939	-	89,939
6030 Total Expenditures	<u>3,443,419</u>	<u>583,733</u>	<u>4,027,152</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>67,440</u>	<u>(10,043)</u>	<u>57,397</u>
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	90,588	8,000	98,588
8911 Transfers Out (Use)	(98,588)	-	(98,588)
7080 Total Other Financing Sources (Uses)	<u>(8,000)</u>	<u>8,000</u>	<u>-</u>
1200 Net Change in Fund Balances	59,440	(2,043)	57,397
0100 Fund Balance - September 1 (Beginning)	<u>1,243,006</u>	<u>3,364</u>	<u>1,246,370</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 1,302,446</u>	<u>\$ 1,321</u>	<u>\$ 1,303,767</u>

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

AVERY 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, 2009

Total Net Change in Fund Balances - Governmental Funds	\$	57,397
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 net assets.		1,880
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2009 capital outlays and debt principal payments is to increase net assets.		149,054
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.		(160,891)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net assets.		1,447
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>48,887</u>

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

AVERY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2009

	Governmental Activities -
	Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 13,851
Total Assets	<u>13,851</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable	<u>55</u>
Total Liabilities	<u>55</u>
NET ASSETS	
Unrestricted Net Assets	<u>13,796</u>
Total Net Assets	<u><u>\$ 13,796</u></u>

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

AVERY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2009

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 15,164
Total Operating Revenues	15,164
OPERATING EXPENSES:	
Payroll Costs	13,325
Total Operating Expenses	13,325
Operating Income	1,839
NONOPERATING REVENUES (EXPENSES):	
Earnings from Temporary Deposits & Investments	41
Total Nonoperating Revenues (Expenses)	41
Change in Net Assets	1,880
Total Net Assets - September 1 (Beginning)	11,916
Total Net Assets - August 31 (Ending)	\$ 13,796

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

AVERY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2009

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Assessments - Other Funds	\$ 15,164
Cash Payments for Insurance Claims	(13,325)
Net Cash Provided by Operating Activities	1,839
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	41
Net Increase in Cash and Cash Equivalents	1,880
Cash and Cash Equivalents at Beginning of the Year:	11,971
Cash and Cash Equivalents at the End of the Year:	\$ 13,851
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>	
Operating Income (Loss):	\$ 1,839

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

AVERY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2009

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and Cash Equivalents	\$ 4,871	\$ 30,239
Other Receivables	500	-
Total Assets	<u>5,371</u>	<u>\$ 30,239</u>
LIABILITIES		
Due to Student Groups	-	\$ 30,239
Payable from Restricted Assets	2,371	-
Total Liabilities	<u>2,371</u>	<u>\$ 30,239</u>
NET ASSETS		
Restricted for Other Purposes	<u>3,000</u>	
Total Net Assets	<u>\$ 3,000</u>	

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

AVERY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2009

	Private Purpose Trust Fund
ADDITIONS:	
Local and Intermediate Sources	\$ 6,117
Total Additions	<u>6,117</u>
DEDUCTIONS:	
Other Operating Costs	<u>3,117</u>
Total Deductions	<u>3,117</u>
Change in Net Assets	3,000
Total Net Assets - September 1 (Beginning)	<u>-</u>
Total Net Assets - August 31 (Ending)	<u><u>\$ 3,000</u></u>

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

**AVERY INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2009**

Note A. Summary of Significant Accounting Policies

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

1. Reporting Entity

The Board of School Trustees has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of Avery Independent School District. The members of the Board of Trustees are elected by the public; have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities. The District is a financial reporting entity as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity." There is a Public Facility Corporation (PFC) that is a blended component unit and is included within the reporting entity. The PFC was created to obtain financing to construct new buildings.

2. Government -Wide and Fund Financial Statements

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the Avery Independent School District and its component unit's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues.

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

The Proprietary and Fiduciary Funds are accounted for on a flow of resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. Agency Funds apply the accrual basis of accounting, but do not have a measurement focus. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Assets. The fund equity is segregated into invested in capital assets net of related debt, restricted net assets, and unrestricted net assets.

4. **Fund Accounting**

The District's accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, equity, revenues, and expenditures or expenses.

The District reports the following major governmental funds:

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

Additionally, the District reports the following fund types:

Governmental Fund Type:

Special Revenue Funds - The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods. The Food Service fund is the only required budgeted fund. For all other funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.

Proprietary Funds:

Internal Service Funds - Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District's Internal Service Fund is a self-funded worker's compensation fund.

Fiduciary Fund Type:

Private Purpose Trust Funds - The District accounts for donations for which the donor has stipulated that both the principal and income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Fund is the Scholarship Fund.

Agency Funds - The District utilizes Agency Funds to account for resources held for others in a custodial capacity. Financial resources for the Agency Funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. The District's Agency Funds are the Student Activity Funds.

5. **Internal Service Funds**

Since Internal Service Funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the District as a whole.

6. **Investments**

Investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

7. Cash Equivalents

The District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

8. Inventories

All inventories are valued at cost using the first in/first out (FIFO) method. The District records purchases of supplies as expenditures. If any supplies are on hand at the end of the year, their total cost is recorded as inventory and the fund balance is reserved for the same amount.

9. Asset Capitalization and Useful Lives

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	10-40
Furniture and Equipment	7-10

10. Long-Term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond issuance costs are reported as deferred charges and amortized over the life of the bonds using the effective interest method. In the fund financial statements, governmental fund types recognize bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources.

11. Fund Equity

In the governmental fund financial statements, unreserved undesignated fund equity for governmental funds indicates available amounts for the budgeting of future operations. The unreserved designated fund equity for governmental funds indicates unreserved funds that have been earmarked by Board Resolution for specific purposes and are therefore not available for general expenditures to be appropriated in the following period unless amended by future Board action. Reserved fund balance is that portion of fund equity that is not available for appropriation or which has been legally separated for specific purposes. As of August 31, 2009, General Fund designated fund balance includes \$282,900 for capital expenditures for equipment. Special Revenue Fund reserves include \$1,081 for Food Service and \$240 for other purposes.

12. Private-Sector Standards

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

13. Functions

School Districts are required to report all expenses by function, except certain indirect expenses. General administration and data processing services (data control codes 41 and 53 respectively) include expenses that are indirect expenses of other functions. These indirect expenses are not allocated to other functions.

14. Worker's Compensation Plan

Avery Independent School District entered into an agreement with the Texas Educational Insurance Association to self-fund their workers' compensation plan. The agreement was effective September 1, 1992 and is administered by Claims Administrative Services, Inc. Prior to the audit, the fixed cost amount for the District was \$10,558 and the loss fund maximum was \$31,103. The loss fund amount is for Avery Independent School District's claims and for claims of other group members in excess of their loss fund maximum.

Statement of Change in Liability From 9/1/08 Thru 8/31/09

	<u>02/03</u>	<u>03/04</u>	<u>04/05</u>	<u>05/06</u>	<u>06/07</u>	<u>07/08</u>	<u>08/09</u>	<u>Total</u>
Unpaid claims at 9/1/08	1,177	918	1,394	609	1,008	4,590	-	9,696
Incurred Claims:								
Provisions for insured events								
of the current year							3,234	3,234
Increases in provision for insured								
events of the prior years	(34)	(251)	(178)	(43)	3	(1,719)	-	(2,222)
Total incurred claims	(34)	(251)	(178)	(43)	3	(1,719)	3,234	1,012
Payments:								
Claims attributable to insured events								
of the current year							78	78
Claims attributable to insured events								
of the prior years	421	109	274	155	343	716	-	2,018
Total payments	421	109	274	155	343	716	78	2,096
Total unpaid claims 8/31/09	722	558	942	411	668	2,155	3,156	8,612
Minimum amount to be encumbered.								
Calculation of this amount allows								
for estimated claims Incurred But								
Not Reported (IBNR)	474	311	595	272	479	1,048	1,967	5,146

16. Risk Management - Claims and Judgements

In the normal course of operations the District is exposed to risks of loss from a number of sources including fire and casualty losses, errors or omissions by board members and employees, and injuries to employees during the course of performing their duties. The District attempts to cover these losses by the purchase of insurance. Significant losses are covered by commercial insurance for property and liability programs. The District entered into an agreement with the Texas Educational Insurance Association to self-fund their workers' compensation plan with annual maximum limits. The District entered into an agreement with the TRS ActiveCare for their employee health insurance coverage. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

In Management's estimation there are no current loss claims that exceed the maximum coverage or any material unfunded claim benefit obligation for the self funded programs.

17. Restricted Assets

When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

18. Data Control Codes

The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide data base for policy development and funding plans.

19. Estimates and Assumptions

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

Note B. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets - Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental funds balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets.

One element of the reconciliation explains that the District uses an internal service fund to charge the costs of certain activities to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase net assets \$13,796.

Another element of the reconciliation explains that capital assets in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$4,698,442 and the accumulated depreciation was \$1,910,283. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period therefore are not reported as liabilities in the funds. At the beginning of the year, these long-term liabilities totaled \$782,570. The net effect of including the beginning balances for capital assets (net of accumulated depreciation) and long-term debt in the governmental activities is to increase net assets by \$2,005,589.

Another element of the reconciliation explains that current year capital outlays and long-term debt principal payments are reflected as expenditures in the fund financial statements, but are shown as increases in capital assets and reductions in long-term debt in the government-wide statement. This element affects both the balance of net assets and the changes in net assets. The net effect of including the current year capital outlays of \$68,339 and long-term debt principal payments of \$80,715 is to increase net assets by \$149,054.

Another element of the reconciliation explains that current year depreciation expense is not reflected as expenditures in the fund financial statements, but is shown as increases in accumulated depreciation in the government-wide statement of net assets. This element affects both the balance of net assets and the changes in net assets. The net effect of including the current year depreciation expense is to decrease assets by \$160,891.

The final element of the reconciliation describes various other assets and liabilities recognitions, reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting.

The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>		
Uncollected taxes (assumed collectible) from prior year levy	45,483	
Uncollected taxes (assumed collectible) from current year levy	<u>32,575</u>	
Total Adjustments to Revenue and Deferred Revenue		<u>78,058</u>
Net Adjustments to Net Assets - Increase		<u><u>78,058</u></u>

Explanation of certain differences between the governmental funds statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities - Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental funds statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities.

One element of the reconciliation explains that the District uses an internal service fund to charge the costs of certain activities to appropriate functions in other funds. The net income of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase net assets \$1,880.

One element of the reconciliation explains that current year capital outlays and long-term debt principal payments are reflected as expenditures in the fund financial statements, but are shown as increases in capital assets and reductions in long-term debt in the government-wide statement. This element affects both the balance of net assets and the changes in net assets. The net effect of removing the current year capital outlays of \$68,339 and long-term debt principal payments of \$80,715 is to increase net assets by \$149,054.

Another element of the reconciliation explains that current year depreciation expense is not reflected as expenditures in the fund financial statements, but is shown as depreciation expense in the government-wide statement of activities. This element affects both the balance of net assets and the changes in net assets. The net effect of including the current year depreciation expense is to decrease assets by \$160,891.

The final element of the reconciliation describes various other assets and liabilities recognitions, reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting.

The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>		
Taxes collected from prior year levies	(31,128)	
Uncollected taxes (assumed collectible) from current year levy	<u>32,575</u>	
Total Adjustments to Revenue and Deferred Revenue		<u>1,447</u>
Net Adjustments to Changes in Net Assets - Increase		<u><u>1,447</u></u>

Note C. Stewardship, Compliance and Accountability

Budgetary Data

The Board of Trustees adopts an "appropriated budget" for the General Fund and the Food Service Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other report appears in Exhibit J-4.

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

1. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are to be made before the fact, reflected in the official minutes of the Board, and not made after fiscal year end.

The following budget amendments were significant:

General Fund:

(Decrease) in revenues - local & intermediate sources	(3,730)
(Decrease) in revenues - state program revenues	(85,974)
(Decrease) in revenues - federal program revenues	(4,300)
Decrease in expenditures - instruction, instructional resources & media serv.	175,243
Decrease in expenditures - school leadership	1,768
(Increase) in expenditures - guidance counseling & health services	(172)
Decrease in expenditures - student (pupil) transportation	12,925
Decrease in expenditures - cocurricular/extracurricular activities	13,454
(Increase) in expenditures - general administration	(5,650)
Decrease in expenditures - facilities maintenance & operations	20,300
(Increase) in expenditures - security & monitoring services	(9,700)
(Increase) in expenditures - data processing services	(6,905)
Decrease in expenditures - debt service - principal on long-term debt	13,800
Decrease in expenditures - payment to fiscal agent/member districts of SSA	4,990
(Increase) in other financing uses - transfers out	(32,936)
	<u>93,113</u>

Food Service Fund:

Increase in revenue - local & intermediate sources	20,325
Increase in revenue - state program revenues	3,781
Increase in revenue - federal program revenues	14,093
(Increase) in expenditures - food services	(10,063)
Increase in other financing sources - transfers in	32,936
	<u>61,072</u>

Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

The District failed to properly amend the budget in the General Fund. The District exceeded the budget in Function 11 – Instruction by \$7,008.

The District improperly budgeted an ending fund balance in the Food Service Fund – August 31, 2009 of \$(5,059) deficit.

The District’s Food Service Fund is considered a special revenue fund since it meets the following criteria: (1) User fees are charged to supplement the National School Lunch Program (NSLP), (2) The General Fund subsidizes the Food Service Program for all expenditures in excess of NSLP, and (3) The District does not consider the Food Service Program completely self-supporting. Food Service fund balances are used exclusively for child nutrition program purposes.

A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

	08/31/2009
	<u>Fund Balance</u>
Appropriated Budget Funds - Food Service Special Revenue Fund	1,081
Nonappropriated Budget Funds	<u>240</u>
All Nonmajor Governmental Special Revenue Funds	<u><u>1,321</u></u>

Note D. Deposits and Investments

District Policies and Legal and Contractual Provisions Governing Deposits:

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

The captions and amounts of cash and investments on the balance sheet and statement of fiduciary net assets of August 31, 2009, consist of the following:

	General Fund	Other Governmental Funds	Balance Sheet Total	Proprietary Fund	Fiduciary Funds
Cash in bank, including certificates of deposit	974,455	1,097	975,552	13,851	35,110
Investments	377,736	-	377,736	-	-
Total	1,352,191	1,097	1,353,288	13,851	35,110

At August 31, 2009, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments and restricted assets) was \$1,024,513 and the bank balance was \$1,081,566. The District's cash deposits at August 31, 2009 and during the year ended August 31, 2009 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Public Funds Investment Act (PFIA) governs the District's investment policies and types of investments. The District's management believes that it complies with the requirements of the PFIA and the District's investments policies.

As of August 31, 2009, Avery Independent School District had the following investments:

Investment Type	Investment Maturities (in years)				
	Fair Value*	Less than 1	1-5	6-10	More than 10
Local Government Investment**					
Cooperative (LOGIC) ***	377,736	377,736	-	-	-
Total	377,736	377,736	-	-	-

*Fair value is the amount at which a security could be exchanged in a current transaction between willing parties, other than in a forced liquidation. Under GASB 31, all investments are recorded at fair value.

**Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

***Investments in local government pool are based upon a contract and not the security itself. Therefore, these types of investments are not categorized in Categories 1-3. The above investment pools, which are regulated by the Securities and Exchange Commission, have as one of their objectives the maintenance of a stable net asset value of \$1.00.

Financial Statements for LOGIC may be obtained from LOGIC, 325 North St. Paul Street, Suite 800, Dallas, Texas 75201.

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

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

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

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

Credit Risk - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; certificates of deposits; fully collateralized repurchase agreements that have a defined termination date and secured by obligations of the United States or its agencies and instrumentalities; public funds investment pools; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States rated not less than A or its equivalent issued by national recognized statistical rating organizations (NRSROs). As of August 31, 2009, the District's investments in LOGIC was rated AAAM by Standard & Poor's.

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

Concentration of Credit Risk - To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District diversifies in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer.

Interest Rate Risk - To limit the risk of changes in interest rates will adversely affect the fair value of investments, the District requires invested instruments maturities do not exceed one year from the time of purchase except when a longer maturity may be specifically authorized by the Board for a given investment provided legal limits are not exceeded.

Foreign Currency Risk for Investments - The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by not investing in foreign currency.

Note E. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. The assessed value of the roll on January 1, 2008 upon which the levy for the 2009 fiscal year was based was \$43,891,539. The tax rates levied for the year ended August 31, 2009, to finance General Fund operations was \$1.0400 per \$100 per valuation.

Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they are collected.

Note F. Delinquent Taxes Receivable

Delinquent taxes are deposited into the General Fund. Allowances for uncollectible tax receivables within the General Fund are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Note G. Disaggregation of Receivables and Payables

Receivables at August 31, 2009, were as follows:

	Property Taxes	Other Governments	Due from Other Funds	Other	Total Receivables
Governmental Activities:					
General Fund	172,277	228,031	55,258	12,491	468,057
Nonmajor Governmental Funds (Special Revenue)	-	47,249	23,459	-	70,708
Total - Governmental Activities	<u>172,277</u>	<u>275,280</u>	<u>78,717</u>	<u>12,491</u>	<u>538,765</u>
Amounts not scheduled for collection during the subsequent year	<u>(94,219)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(94,219)</u>

Payables at August 31, 2009, were as follows:

	Accounts	Salaries and Benefits	Due to Other Funds	Due to Other Governments	Total Payables
Governmental Activities:					
General Fund	25,055	82,673	23,459	214,338	345,525
Nonmajor Governmental Funds (Special Revenue)	-	8,290	55,258	-	63,548
Total - Governmental Activities	<u>25,055</u>	<u>90,963</u>	<u>78,717</u>	<u>214,338</u>	<u>409,073</u>

Note H. Capital Asset Activity

Capital asset activity for the District for the year ended August 31, 2009, was as follows:

	Beginning Balance	Additions	Retirements/ Reclassifications	Ending Balance
Governmental Activities:				
<i>District -</i>				
Land	103,209	-	-	103,209
Buildings and Improvements	2,605,020	-	-	2,605,020
Furniture and Equipment	719,543	68,339	-	787,882
<i>Public Facility Corporation -</i>				
Land	3,375	-	-	3,375
Buildings and Improvements	1,237,039	-	-	1,237,039
Furniture and Equipment	30,256	-	-	30,256
Totals at Historic Cost	<u>4,698,442</u>	<u>68,339</u>	<u>-</u>	<u>4,766,781</u>
 Less Accumulated Depreciation for:				
<i>District -</i>				
Buildings and Improvements	(1,134,296)	(80,525)	-	(1,214,821)
Furniture and Equipment	(574,968)	(49,440)	-	(624,408)
<i>Public Facility Corporation -</i>				
Buildings and Improvements	<u>(201,019)</u>	<u>(30,926)</u>	<u>-</u>	<u>(231,945)</u>
Total Accumulated Depreciation	<u>(1,910,283)</u>	<u>(160,891)</u>	<u>-</u>	<u>(2,071,174)</u>
 Governmental Capital Assets, Net:				
Land	106,584	-	-	106,584
Buildings and Improvements, Net	2,506,744	(111,451)	-	2,395,293
Furniture and Equipment, Net	174,831	18,899	-	193,730
	<u>2,788,159</u>	<u>(92,552)</u>	<u>-</u>	<u>2,695,607</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
Instruction	85,681
Instructional Resources and Media Services	2,652
School Leadership	6,253
Health Services	927
Student (Pupil) Transportation	32,864
Food Services	1,178
Cocurricular/Extracurricular Activities	24,160
General Administration	4,290
Plant Maintenance and Operations	<u>2,886</u>
Total Depreciation Expense - Governmental Activities	<u><u>160,891</u></u>

During the current year, the District purchased several capital outlay items, including an Ag trailer and tools, a new tractor and a server upgrade and equipment for the high school computer lab.

Note I. Capital Lease Obligations

The District entered into a lease purchase agreement for the construction of an elementary school building and equipment on March 31, 1998. The District refinanced the debt in February 2004. Annual payments will continue to be paid out of the General Fund. The effective interest rate is 5.50%. The refinanced interest rate is 3.90%.

In the governmental fund financial statements, current lease payments accounted for in the General Fund in Function 71 and Function 72 Debt Service totaled \$33,430 of principal payments and \$2,194 of interest payments, respectively, for the year ended August 31, 2009. The capital lease obligation was paid off in the current year.

A summary of changes in the Capital Lease Obligations for the year ended August 31, 2009 is as follows:

Description	Stated Interest Rate	Amounts			Amounts Outstanding 08/31/2009
		Outstanding 09/01/2008	Additions	Reductions	
Elementary Building & Equipment	3.90%	<u>33,430</u>	-	<u>33,430</u>	-
		<u><u>33,430</u></u>	-	<u><u>33,430</u></u>	-

Note J. Lease Revenue Bonds Payable

The Public Facility Corporation (PFC) is a blended component of the District. \$1,000,000 was obtained by the Public Facility Corporation to construct a new gym for the District. In March, 2004, the Corporation refinanced the principal balance remaining on the original debt.

In an order dated December 19, 2005, the District executed and delivered a second amended and restated lease in the amount of \$865,000, pursuant to chapter 1207, Texas Government Code, as amended. Repayments of monthly principal and interest (3.90% to 6.25%) began in December, 2005 and will continue until the principal balance is repaid in May, 2020. This advance refunding was undertaken to reduce total debt service payments over the next 20 years by approximately \$103,000 to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of approximately \$61,000.

In the governmental fund financial statements, current requirements for principal and interest expenditures are accounted for in the General Fund in Function 71, Function 72 and Function 73 Debt Service. The District paid \$47,285 in principal payments, \$32,798 in interest payments and \$1,060 in fees during the year ended August 31, 2009.

A summary of changes in the Lease Revenue Bonds Payable for the year ended August 31, 2009 is as follows:

Purpose	Stated Interest Rate	Amounts Original Issue	Amounts			Amounts Outstanding 08/31/2009
			09/01/2008	Issued	Retired	
Lease Revenue Bond Payable	3.90% to 6.25%	865,000	749,140	-	47,285	701,855
			749,140	-	47,285	701,855

Bond payment requirements are as follows:

Year Ended	Bond Payable		
	Principal	Interest	Total Requirements
August 31			
2010	50,868	40,645	91,513
2011	55,467	37,513	92,980
2012	59,344	34,045	93,389
2013	61,034	30,477	91,511
2014	66,582	26,652	93,234
2015-2019	355,458	73,124	428,582
2020	53,102	1,377	54,479
	701,855	243,833	945,688

There are a number of limitations and restrictions contained in the lease revenue bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2009.

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

Note K. Changes in Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2009 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Capital Lease Payable	33,430	-	33,430	-	-
Lease Revenue Bonds Payable	749,140	-	47,285	701,855	50,868
Total Governmental Activities	782,570	-	80,715	701,855	50,868
Long-term Liabilities					

Note L. Defined Benefit Pension Plan (TRS)

Plan Description – Avery 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 disabilities annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and

service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provision of the pension plan and may under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

For members of the retirement system entitled to the minimum salary for certain school personnel under Section 21.402 of the Texas Education Code and from members who would have been entitled to the state minimum salary under former Section 16.056, Texas Education Code, the District shall pay the state's contribution on the portion of the member's salary that exceeds the statutory minimum, if the district's effective tax rate for maintenance and operations is less than 12.5 percent of the statewide average for the tax year that ended in the proceeding school year.

All employees of public, state-supported educational institutions in Texas who are employed for ½ or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Subtitle C 822.002 are covered by TRS membership.

Service Retirement:

- 1) Normal
 - a) Age 65 with 5 years of service
 - b) Age 60 with 20 years of service
 - c) Age 50 with 30 years of service
 - d) Effective September 1, 1997 - any combination of age plus years of service which equals 80
- 2) Reduced
 - a) Age 55 with at least 5 years of service
 - b) Any age below 50 with 30 years of service

A member is fully vested after five years of creditable service and entitled to any benefit for which eligibility requirements have been met.

Funding Policy – Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during the fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2009, 2008 and 2007, and a state contribution rate of 6.58% for fiscal years 2009 and 2008 and 6.00% for fiscal year 2007. In certain instances the reporting district is required to make all or a portion of the state's 6.58% contribution for fiscal years 2009 and 2008 and 6.0% for fiscal year 2007. State contributions to TRS made on behalf of the Avery Independent School District's employees for the years ended August 31, 2009, 2008, and 2007 were \$131,360, \$128,248, and \$112,455 respectively. The Avery Independent School District paid additional state contributions for the years ended August 31, 2009, 2008, and 2007 in the amount of \$10,939, \$7,392, and \$10,702, on the portion of the employees' salaries that exceeded the statutory minimum.

Note M. School District Retiree Health Plan (TRS)

Plan Description – The Avery Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined post employment health care plan administered by the Teacher Retirement System of Texas. TRS-Care Retired Plan provides a 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 issued a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trstate.tx.us, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1-800-223-8778.

Funding Policy – Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contributions 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 2009, 2008 and 2007. 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, 2009, 2008, and 2007, the State's contributions to TRS-Care were made on behalf of Avery Independent School District's employees were \$21,900, \$20,697, and \$18,743, respectively, the active member contributions were \$14,859, \$14,104, and \$12,183, respectively, and the school district's contributions were \$12,575, \$11,935, and \$10,308, respectively, which equaled the required contributions each year.

Note N. Medicare Part D (TRS)

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. State contributions for Medicare Part D made on behalf of Avery Independent School District's employees were \$5,148, \$5,197, and \$4,327, respectively for the years ended August 31, 2009, 2008, and 2007.

Note O. Health Care Coverage

During the year ended August 31, 2009, employees of Avery Independent School District were covered by a uniform statewide health care program for public education employees. The District contributed \$225 per month, which includes the \$75 which is reimbursed by the state, per employee to the Plan and employees, at their option, authorized payroll withholdings to pay the remaining balance of the premium for employee coverage and/or dependents. All contributions/premiums were paid to the statewide health care program. The Plan was authorized by House Bill 3343 and will be administered by the Teacher Retirement System of Texas (TRS). The TRS board approved the selection of Blue Cross and Blue Shield of Texas as the health plan administrator and Merck-Medco Managed Care as the pharmacy benefits manager for TRS-ActiveCare.

Note P. Commitments and Contingencies

Litigation - The District may be subjected to loss contingencies arising principally in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a material adverse effect on the accompanying financial statements and accordingly, no provision for losses has been recorded.

Grant Programs - The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at August 31, 2009 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying financial statements for such contingencies.

Note Q. Deferred Revenue

Deferred revenue at August 31, 2009, consisted of the following:

	General Fund	Nonmajor Governmental Funds	Total
Net uncollected property tax	78,058	-	78,058
High School Allotment grant	-	6,936	6,936
	<u>78,058</u>	<u>6,936</u>	<u>84,994</u>

Note R. Due From/To Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from/to federal and state governments as of August 31, 2009 are summarized below. All federal grants shown below are passed through the TEA and are reported on the combine financial statements as Due from/to other governments.

Fund	State Entitlements	Federal Grants	Total
Due from Other Governments:			
General Fund	228,031	-	228,031
Nonmajor Governmental Funds (Special Revenue)	4,306	42,943	47,249
	<u>232,337</u>	<u>42,943</u>	<u>275,280</u>
Due to Other Governments:			
General Fund	214,338	-	214,338

Note S. Interfund Receivables and Payables

Interfund balances at August 31, 2009 consisted of the following individual fund balances:

	Receivables (Due From)	Payables (Due To)
General Fund :		
Due from / to Nonmajor Governmental Fund - Special Revenue	55,258	23,459
Nonmajor Governmental Fund - Special Revenue: Due from / to General Fund	<u>23,459</u>	<u>55,258</u>
	<u>78,717</u>	<u>78,717</u>

Note T. Transfers In and Transfers Out

	<u>Transfers In</u>	<u>Transfers Out</u>
General Fund:		
Operating transfer in (out) to General Fund to subsidize co-curricular activities	90,588	(90,588)
Operating transfer (out) to Nonmajor Governmental-Special Revenue	-	(8,000)
	<u>90,588</u>	<u>(98,588)</u>
Nonmajor Governmental - Special Revenue:		
Operating transfer in from General Fund to subsidize Food Service Fund	8,000	-
	<u>98,588</u>	<u>(98,588)</u>

Note U. Shared Service Arrangements

The District participates in a Shared Service Arrangements (“SSA”) as described below:

State/Local Funded – Clarksville ISD fiscal agent: The District participates in a state/local funded SSA which provides special education services to member districts. In addition to the District, other member districts include districts in Red River County. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent.

The District has accounted for the payment of the activities of the SSA in the General Fund Function 93, Shared Services Arrangements and has accounted for using Model 3 in the SSA section of the Resource Guide. The payments total \$89,939 for the year ended August 31, 2009.

Note V. Revenue from Local and Intermediate Sources

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

<u>Revenue Sources</u>	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Governmental Funds Total</u>	<u>Proprietary Fund</u>	<u>Private Purpose Trust Fund</u>
Property taxes and tax related income	451,090	-	451,090	-	-
Investment income	24,106	-	24,106	41	18
Food service sales	-	109,234	109,234	-	-
Athletic activities	11,836	-	11,836	-	-
Gifts and bequests	4,225	-	4,225	-	3,099
Insurance proceeds	18,833	-	18,833	-	-
Other local and intermediate sources	27,662	-	27,662	15,164	3,000
	<u>537,752</u>	<u>109,234</u>	<u>646,986</u>	<u>15,205</u>	<u>6,117</u>

REQUIRED SUPPLEMENTARY INFORMATION

AVERY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2009

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	\$ 593,925	\$ 590,195	\$ 537,752	\$ (52,443)
5800 State Program Revenues	3,192,723	3,106,749	2,973,107	(133,642)
5900 Federal Program Revenues	4,300	-	-	-
5020 Total Revenues	3,790,948	3,696,944	3,510,859	(186,085)
EXPENDITURES:				
Current:				
0011 Instruction	2,023,987	1,848,594	1,855,602	(7,008)
0012 Instructional Resources and Media Services	64,801	64,951	63,735	1,216
0013 Curriculum and Instructional Staff Development	4,260	4,260	4,074	186
0023 School Leadership	305,890	304,122	299,366	4,756
0031 Guidance, Counseling and Evaluation Services	58,863	59,295	56,682	2,613
0033 Health Services	50,387	50,127	48,813	1,314
0034 Student (Pupil) Transportation	136,468	123,543	113,047	10,496
0036 Extracurricular Activities	133,691	120,237	115,582	4,655
0041 General Administration	276,096	281,746	276,993	4,753
0051 Facilities Maintenance and Operations	343,600	323,300	322,440	860
0052 Security and Monitoring Services	23,000	32,700	26,172	6,528
0053 Data Processing Services	49,010	55,915	54,207	1,708
Debt Service:				
0071 Debt Service - Principal on Long Term Debt	96,200	82,400	80,715	1,685
0072 Debt Service - Interest on Long Term Debt	35,200	35,200	34,992	208
0073 Debt Service - Bond Issuance Cost and Fees	-	-	1,060	(1,060)
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	120,000	115,010	89,939	25,071
6030 Total Expenditures	3,721,453	3,501,400	3,443,419	57,981
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	69,495	195,544	67,440	(128,104)
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	90,588	90,588
8911 Transfers Out (Use)	-	(32,936)	(98,588)	(65,652)
7080 Total Other Financing Sources (Uses)	-	(32,936)	(8,000)	24,936
1200 Net Change in Fund Balances	69,495	162,608	59,440	(103,168)
0100 Fund Balance - September 1 (Beginning)	1,243,006	1,243,006	1,243,006	-
3000 Fund Balance - August 31 (Ending)	\$ 1,312,501	\$ 1,405,614	\$ 1,302,446	\$ (103,168)

COMBINING SCHEDULES

AVERY INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2009

Data Control Codes	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	240 National Breakfast and Lunch Program
ASSETS			
1110 Cash and Cash Equivalents	\$ -	\$ 275	\$ -
1240 Due from Other Governments	-	288	4,155
1260 Due from Other Funds	2,719	-	8,000
1000 Total Assets	<u>\$ 2,719</u>	<u>\$ 563</u>	<u>\$ 12,155</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2160 Accrued Wages Payable	\$ 1	\$ 263	\$ 3,740
2170 Due to Other Funds	2,713	275	7,264
2200 Accrued Expenditures	5	25	70
2300 Deferred Revenues	-	-	-
2000 Total Liabilities	<u>2,719</u>	<u>563</u>	<u>11,074</u>
Fund Balances:			
Reserved For:			
3450 Food Service	-	-	1,081
3490 Other Purposes	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>1,081</u>
4000 Total Liabilities and Fund Balances	<u>\$ 2,719</u>	<u>\$ 563</u>	<u>\$ 12,155</u>

255 ESEA II,A Training and Recruiting	261 Texas Reading First	262 Title II, D Education Technology	270 ESEA VI, Pt B Rural & Low Income	401 Optional Extended Year Program	404 Student Success Initiative	411 Technology Allotment	428 High School Allotment
\$ 470	\$ -	\$ -	\$ -	\$ -	\$ 112	\$ 240	\$ -
-	38,500	-	-	1,328	1,077	-	-
-	505	-	253	-	-	-	11,982
<u>\$ 470</u>	<u>\$ 39,005</u>	<u>\$ -</u>	<u>\$ 253</u>	<u>\$ 1,328</u>	<u>\$ 1,189</u>	<u>\$ 240</u>	<u>\$ 11,982</u>
\$ -	\$ 2,604	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,509
470	36,353	-	253	1,328	1,189	-	3,512
-	48	-	-	-	-	-	25
-	-	-	-	-	-	-	6,936
<u>470</u>	<u>39,005</u>	<u>-</u>	<u>253</u>	<u>1,328</u>	<u>1,189</u>	<u>-</u>	<u>11,982</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	240	-
-	-	-	-	-	-	240	-
<u>\$ 470</u>	<u>\$ 39,005</u>	<u>\$ -</u>	<u>\$ 253</u>	<u>\$ 1,328</u>	<u>\$ 1,189</u>	<u>\$ 240</u>	<u>\$ 11,982</u>

AVERY INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2009

Data Control Codes	429 Other State Special Revenue Funds	Total Nonmajor Governmental Funds
ASSETS		
1110 Cash and Cash Equivalents	\$ -	\$ 1,097
1240 Due from Other Governments	1,901	47,249
1260 Due from Other Funds	-	23,459
1000 Total Assets	<u>\$ 1,901</u>	<u>\$ 71,805</u>
LIABILITIES AND FUND BALANCES		
Liabilities:		
2160 Accrued Wages Payable	\$ -	\$ 8,117
2170 Due to Other Funds	1,901	55,258
2200 Accrued Expenditures	-	173
2300 Deferred Revenues	-	6,936
2000 Total Liabilities	<u>1,901</u>	<u>70,484</u>
Fund Balances:		
Reserved For:		
3450 Food Service	-	1,081
3490 Other Purposes	-	240
3000 Total Fund Balances	<u>-</u>	<u>1,321</u>
4000 Total Liabilities and Fund Balances	<u>\$ 1,901</u>	<u>\$ 71,805</u>

AVERY INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	240 National Breakfast and Lunch Program
REVENUES:			
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ 109,234
5800 State Program Revenues	-	-	3,194
5900 Federal Program Revenues	54,355	10,057	145,117
5020 Total Revenues	<u>54,355</u>	<u>10,057</u>	<u>257,545</u>
EXPENDITURES:			
Current:			
0011 Instruction	54,355	10,057	-
0035 Food Services	-	-	267,828
6030 Total Expenditures	<u>54,355</u>	<u>10,057</u>	<u>267,828</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>(10,283)</u>
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	-	-	8,000
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>8,000</u>
1200 Net Change in Fund Balance	-	-	(2,283)
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>3,364</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,081</u>

255 ESEA II,A Training and Recruiting	261 Texas Reading First	262 Title II, D Education Technology	270 ESEA VI, Pt B Rural & Low Income	401 Optional Extended Year Program	404 Student Success Initiative	411 Technology Allotment	428 High School Allotment
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	1,328	3,703	11,434	39,166
<u>15,266</u>	<u>108,275</u>	<u>995</u>	<u>41,018</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>15,266</u>	<u>108,275</u>	<u>995</u>	<u>41,018</u>	<u>1,328</u>	<u>3,703</u>	<u>11,434</u>	<u>39,166</u>
15,266	108,275	995	41,018	1,328	3,703	11,194	39,166
-	-	-	-	-	-	-	-
<u>15,266</u>	<u>108,275</u>	<u>995</u>	<u>41,018</u>	<u>1,328</u>	<u>3,703</u>	<u>11,194</u>	<u>39,166</u>
-	-	-	-	-	-	240	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	240	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 240</u>	<u>\$ -</u>

AVERY INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2009

Data Control Codes	429 Other State Special Revenue Funds	Total Nonmajor Governmental Funds	
REVENUES:			
5700	Total Local and Intermediate Sources	\$ -	\$ 109,234
5800	State Program Revenues	30,548	89,373
5900	Federal Program Revenues	-	375,083
5020	Total Revenues	30,548	573,690
EXPENDITURES:			
Current:			
0011	Instruction	30,548	315,905
0035	Food Services	-	267,828
6030	Total Expenditures	30,548	583,733
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(10,043)
OTHER FINANCING SOURCES (USES):			
7915	Transfers In	-	8,000
7080	Total Other Financing Sources (Uses)	-	8,000
1200	Net Change in Fund Balance	-	(2,043)
0100	Fund Balance - September 1 (Beginning)	-	3,364
3000	Fund Balance - August 31 (Ending)	\$ -	\$ 1,321

REQUIRED T.E.A. SCHEDULES

AVERY INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2009

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2000 and prior years	Various	Various	\$ 30,522,181
2001	1.257860	0.000000	32,064,936
2002	1.290000	0.000000	30,895,581
2003	1.390000	0.000000	31,518,129
2004	1.440000	0.000000	35,655,040
2005	1.440000	0.000000	36,759,861
2006	1.440000	0.000000	41,832,436
2007	1.320000	0.000000	40,025,909
2008	1.000000	0.000000	40,497,800
2009 (School year under audit)	1.040000	0.000000	43,891,539
1000 TOTALS			

(10) Beginning Balance 9/1/2008	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2009
\$ 22,876	\$ -	\$ 317	\$ -	\$ (1,889)	\$ 20,670
6,504	-	134	-	(1,000)	5,370
6,367	-	103	-	(1,026)	5,238
9,028	-	228	-	(1,105)	7,694
15,540	-	112	-	(1,080)	14,348
18,350	-	1,633	-	(1,145)	15,572
22,822	-	1,382	-	(1,145)	20,295
24,752	-	6,315	-	(1,169)	17,268
39,261	-	15,923	-	(952)	22,387
-	456,472	411,235	-	(1,804)	43,434
<u>\$ 165,500</u>	<u>\$ 456,472</u>	<u>\$ 437,382</u>	<u>\$ -</u>	<u>\$ (12,314)</u>	<u>\$ 172,277</u>

AVERY INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2010-2011
 GENERAL AND SPECIAL REVENUE FUNDS
 AUGUST 31, 2009

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

Account Number	Account Name	1	2	3	4	5	6	7
		(702) School Board	(703) Tax Collections	(701) Supt's Office	(750) Indirect Cost	(720) Direct Cost	(other) Miscellaneous	Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 127,922	\$ 47,710	\$ -	\$ -	\$ 175,632
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	-	-	-	-	-
6212	Audit Services	-	-	-	19,980	-	-	19,980
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	21,514	-	-	-	-	21,514
621X	Other Professional Services	-	-	-	3,575	-	-	3,575
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	14,791	-	-	14,791
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	-	-	-	-
6290	Miscellaneous Contr.	-	-	-	7,394	-	-	7,394
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	2,002	-	2,756	6,671	-	-	11,429
6410	Travel, Subsistence, Stipends	1,489	-	1,953	1,753	-	-	5,195
6420	Ins. and Bonding Costs	-	-	-	5,909	-	-	5,909
6430	Election Costs	5,436	-	-	-	-	-	5,436
6490	Miscellaneous Operating	65	-	-	13,467	-	-	13,532
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 8,992	\$ 21,514	\$ 132,631	\$ 121,250	\$ -	\$ -	\$ 284,387

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 4,027,152

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 68,339
Total Debt & Lease(6500)	(11)	116,767
Plant Maintenance (Function 51, 6100-6400)	(12)	314,743
Food (Function 35, 6341 and 6499)	(13)	129,591
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		121,250

SubTotal: 750,689

Net Allowed Direct Cost \$ 3,276,463

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 3,842,059
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)	\$ 818,138
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ -
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ -

(8) NOTE A: \$7,394 in Function 53 expenditures are included in this report on administrative costs.
 No Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

AVERY INDEPENDENT SCHOOL DISTRICT
 FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
 GENERAL FUND AS OF AUGUST 31, 2009

UNAUDITED

1	Total General Fund Balance as of 8/31/09 (Exhibit C-1 object 3000 for the General Fund Only)	\$	1,302,446
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$	-
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund Only)		282,900
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)		375,000
5	Estimate of one month's average cash disbursements during the regular school session (9/1/09-5/31/10).		314,000
6	Estimate of delayed payments from state sources (58xx) including August payment delays		-
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.		13,693
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	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)		<u>985,593</u>
11	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)	\$	<u><u>316,853</u></u>

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

The District anticipates needing the funds for mandated salary increases and continual upgrade of educational programs.

AVERY INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - FOOD SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2009

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	\$ 85,587	\$ 105,912	\$ 109,234	\$ 3,322
5800 State Program Revenues	1,550	5,331	3,194	(2,137)
5900 Federal Program Revenues	113,100	127,193	145,117	17,924
5020 Total Revenues	200,237	238,436	257,545	19,109
EXPENDITURES:				
0035 Food Services	269,732	279,795	267,828	11,967
6030 Total Expenditures	269,732	279,795	267,828	11,967
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(69,495)	(41,359)	(10,283)	31,076
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	32,936	8,000	(24,936)
7080 Total Other Financing Sources (Uses)	-	32,936	8,000	(24,936)
1200 Net Change in Fund Balances	(69,495)	(8,423)	(2,283)	6,140
0100 Fund Balance - September 1 (Beginning)	3,364	3,364	3,364	-
3000 Fund Balance - August 31 (Ending)	\$ (66,131)	\$ (5,059)	\$ 1,081	\$ 6,140

FEDERAL AWARDS SECTION

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

Independent Auditor's Report

Board of Trustees
Avery Independent School District
150 San Antonio Street
Avery, Texas 75554

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Avery Independent School District (the District) as of and for the year ended August 31, 2009. These collectively comprise the District's basic financial statements. We have issued our report on them dated January 19, 2010. 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 Avery Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Avery Independent School District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Avery Independent School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency or combination of control deficiencies that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies describe in the accompanying schedule of findings and questioned costs as items 2009-1, 2009-2 and 2009-3 to be significant deficiencies in internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, of the significant deficiencies in internal control over financial reporting described in the accompany schedule of findings and questioned costs, we consider all three to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Avery 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*.

We noted certain matters that we reported to management of the District in a separate letter dated January 19, 2010.

Avery Independent School District's response to the findings identified in our audit is described in the accompanying corrective action plan on page 58. We did not audit the District's response and, accordingly, we express no opinion on it.

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



WILF & HENDERSON, P.C.
Certified Public Accountants

January 19, 2010

**AVERY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2009**

I. Summary of the Auditor's Results:

- a. The type of report issued on the financial statements of the Avery Independent School District was an unqualified opinion.
- b. Three significant deficiencies disclosed during the audit of the financial statements are reported in the report on internal control over financial reporting and on compliance and other matters required by the GAO's *Government Auditing Standards*. The three deficiencies are reported as material weaknesses.
- c. No instances of noncompliance material to the financial statements of the Avery Independent School District were disclosed during the audit.

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with Generally Accepted Government Auditing Standards.

Finding 2009-1 Bank Reconciliations

Condition Found: The monthly bank reconciliations were not prepared in an accurate and timely manner.

Criteria: Internal controls should be in place to provide reasonable assurance that the monthly bank reconciliations are prepared in an accurate and timely manner.

Cause and Effect: The bank reconciliations were not reconciled due to lack of time and expertise to deal with the problem. Because of the failure to prepare monthly bank reconciliations in an accurate and timely manner, the resulting financial data was not entirely complete or accurate. Also, additional time was required to balance interfund transactions, which would have been identified and corrected if monthly bank reconciliations were prepared.

Recommendation: The District's internal controls should require bank reconciliations to be prepared in an accurate and timely manner even if it necessitates additional staff or outside assistance.

Finding 2009-2 Food Service Budget and Deficit Fund Balance

Condition Found: The District failed to properly budget the Food Service Fund. The District also failed to record a transfer to resolve a deficit fund balance.

Criteria: The District should not budget deficit projected ending fund balances. The District should not have a deficit fund balance.

Cause and Effect: The District improperly budgeted a deficit ending fund balance of \$(5,059) in the Food Service Fund. The fund must properly budget transfers from the General Fund to subsidize expected losses.

The general ledger reflected a deficit fund balance of \$(6,919). As a result, an audit adjustment was proposed to record a transfer in to create a positive ending fund balance.

Recommendation: The District should review the budget effects on projected ending fund balance to prevent budget deficits. The District should review the general ledger and record necessary transfers to prevent fund balance deficits.

Finding 2009-3 Material Audit Adjustments

Condition Found: Financial data was incorrectly reported in the general ledger records.

Criteria: Internal controls should be in place that provides reasonable assurance the financial data is accurately reported in the financial statements.

Cause and Effect: Because of failure to post prior year audit adjustments, failure to prepare monthly bank reconciliations in an accurate and timely manner, failure to review and understand the balance of transfers between funds, failure to properly record state funding transactions and prepare year-end settle up calculations, and failure to properly adjust federal award programs to final expenditure reports, the errors reflected in the general ledger records were not identified and corrected.

Recommendation: We recommend the District's internal controls require procedures be in place that provides assurance the financial data is accurately reported in the financial statements. These procedures should be performed in an accurate and timely manner even if it necessitates additional staff or outside assistance.

**AVERY INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2009**

Prior Audit Findings Relating to the Financial Statements Which Were Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards*.

Finding 2008-1

The District planned to implement internal controls to ensure bank reconciliations were prepared in an accurate and timely manner. A similar finding is noted in the 2009 audit. The current year finding is being reported as a material weakness.

Finding 2008-2

The District lacked segregation of duties over financial transaction processing. No similar finding is noted in the 2009 audit.

Finding 2008-3

The District failed to properly budget the Food Service Fund. A similar finding is noted in the 2009 audit. The current year finding is being reported as a material weakness.

**AVERY INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2009**

Finding 2009-1

Bank reconciliation procedures will identify all errors and correctly reconcile to the bank balance for each month. Bank reconciliations henceforth will be prepared in a timely manner and approved by the Superintendent each month.

Finding 2009-2

The District will review the budget effects on the projected ending fund balance to ensure it is not a deficit. The Board will review all budgets carefully and adopt a Food Service Budget with a positive projected ending fund balance. The Board will also monitor budget amendments to ensure the projected ending fund balance remains positive.

Finding 2009-3

Adjustments and financial data will be reviewed with verification of ledger posting, transfer posting and ledger balances. In addition, the business manager will reconcile cash, interfund transactions and transfers between funds to ensure all accounts are balanced. The District will restructure staff to provide additional assistance in administration and accounting duties to allow the business manager more time to prepare and review general ledger transactions.