

**DENTON INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT FOR THE**  
**YEAR ENDED JUNE 30, 2005**

DENTON INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2005

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CERTIFICATE OF BOARD

Denton Independent School District  
Name of School District

Denton  
County

061-901  
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 June 30, 2005, at a meeting of the Board of Trustees of such school district on the \_\_\_\_ day of November, 2005.

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

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

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

Independent Auditor's Report

Board of Trustees  
Denton Independent School District  
Denton, TX 76201

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Denton Independent School District (the District), as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express an opinion on them based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Denton Independent School District as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and the budgetary comparison information on pages 7 through 15 and 29, 86 and 87 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements.

In addition, the combining and individual nonmajor fund financial statements and the TEA required schedules listed in the table of contents are like presented for additional analysis and are not a part of the basic financial statements. The combining and individual nonmajor fund financial statements and the TEA required schedules (except for Exhibit J-3 The Fund Balance and Cash Flow Calculation Worksheet, which is marked **UNAUDITED** and on which we express no opinion) have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2005, on our consideration of the District's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grants. 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.

*"Authorized signatures available on the reports filed with TEA"*

Hankins, Eastup, Deaton, Tonn & Seay  
A Professional Corporation  
Certified Public Accountants

September 23, 2005

**DENTON INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2005  
(UNAUDITED)**

As management of Denton Independent School District, we offer readers of the District's financial statement this narrative overview and analysis of the financial activities of the District for the year ended June 30, 2005. Please read this narrative in conjunction with the independent auditors' report on page 5, and the District's Basic Financial Statements that begin on page 19.

**FINANCIAL HIGHLIGHTS**

- The assets of Denton Independent School District exceeded its liabilities at the close of the most recent fiscal period by \$47,211,447 (net assets). Of this amount, \$40,589,934 (unrestricted net assets) may be used to meet the District's ongoing obligations to citizens and creditors in accordance with the District's fund designation and fiscal policies.
- The District's total net assets decreased by \$13,340,084.
- As of the close of the current fiscal period, the District's governmental funds reported combined ending fund balances of \$150,345,328. Over 56% of this total amount (\$84,679,660) is unreserved and available for use within the District's designation and policies.
- At the end of the current fiscal period, unreserved fund balance for the general fund was \$33,261,574 or 30% of the total general fund expenditures.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 19 through 21). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 22) 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. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District. The District has no component units for which it is financially accountable.

The notes to the financial statements (starting on page 34) 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. The section labeled Single Audit Section contains data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

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

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

The analysis of the District's overall financial condition and operations begins on page 19. Its primary purpose is to show whether the financial position of the District is improving or deteriorating 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 revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting (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 divide the District into two kinds of activities:

- Governmental activities—Most of the District's basic services are reported here, including the instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.
- Business-type activities—The District charges a fee to “customers” to help it cover all or most of the cost of services it provides in the child nutrition program and in its athletic stadium concessions activities.

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

### **Fund Financial Statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives.

The fund financial statements begin on page 22 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities).

All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. The District maintains forty governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund, each of which are considered to be major funds. Data from the other thirty-seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report. The District adopts an annual appropriated budget for its general fund, debt service fund and food service fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets. The basic governmental fund financial statements can be found on pages 22 through 28 of this report.
- **Proprietary funds.** The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. In fact, the District's enterprise funds (one category of proprietary funds) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows. The internal service funds (the other category of proprietary funds) report activities that provide supplies and services for the District's other programs and activities—such as the District's self-insurance programs and the print shop.
- **Fiduciary funds.** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The District is the trustee, or *fiduciary*, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets that can be found on page 33. These activities are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analysis presents both current and prior year data and discuss significant changes in the accounts. Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the District's governmental and business-type activities.

Net assets of the District's governmental activities decreased from \$58,743,907 to \$45,355,997. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$40,561,839 at June 30, 2005. This decrease in governmental net assets was the result of several factors. First, the District's revenues exceeded expenses by \$12,521,056 (as adjusted for the effects of capital outlay and debt service payments.) Second, the District recorded depreciation expense, which is a non-cash expense that reduces the value of District assets, in the amount of \$9,643,817. Third, various adjustments totaling \$5,843,484 were posted to revenues and expenses to account for prepaid expenses, interest accruals and tax revenues earned during the period under the full accrual method of accounting. Fourth, adjustments to beginning capital assets and related accumulated depreciation decreased net assets by \$9,837,120.

In 2005, net assets of our business-type activities increased by \$47,823, less than 3 percent. This increase is relatively insignificant to the overall operations of the District, but it represents significant services to the community through the Child Nutrition program and the athletic stadium concession activities.

**Table I  
NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
Current and other assets	194,495,177	186,936,674	976,210	1,135,113	195,471,387	188,071,787
Capital assets	284,618,701	338,540,359	1,052,655	954,043	285,671,356	339,494,402
Total assets	479,113,878	525,477,033	2,028,865	2,089,156	481,142,743	527,566,189
Long-term liabilities	382,942,672	439,253,179	-	-	382,942,672	439,253,179
Other liabilities	37,427,302	40,867,857	221,238	233,706	37,648,540	41,101,563
Total liabilities	420,369,974	480,121,036	221,238	233,706	420,591,212	480,354,742
Net Assets:						
Invested in capital assets net of related debt	7,618,292	(10,566,894)	1,052,655	954,043	8,670,947	(9,612,851)
Restricted	12,950,041	15,361,052	754,972	873,312	13,705,013	16,234,364
Unrestricted	38,175,571	40,561,839	-	28,095	38,175,571	40,589,934
Total net assets	58,743,904	45,355,997	1,807,627	1,855,450	60,551,531	47,211,447

**Table II**  
**CHANGES IN NET ASSETS**

	Governmental Activities		Business-type Activities		Total	
	2004	2005	2004	2005	2004	2005
<b>Revenues:</b>						
Program Revenues:						
Charges for Services	1,365,871	1,399,721	2,161,127	2,343,830	3,526,998	3,743,551
Operating grants and contributions	18,297,591	17,643,993	2,425,306	2,857,000	20,722,897	20,500,993
General Revenues:						
Maintenance and operations taxes	81,827,520	90,907,404	-	-	81,827,520	90,907,404
Debt service taxes	19,850,164	22,069,533	-	-	19,850,164	22,069,533
State aid - formula grants	14,844,397	15,374,736	-	-	14,844,397	15,374,736
Grants and Contributions not restricted to specific programs	1,122,053	1,024,226	-	-	1,122,053	1,024,226
Investment Earnings	1,359,175	3,682,993	8,011	24,856	1,367,186	3,707,849
Miscellaneous	181,407	329,047	-	-	181,407	329,047
<b>Total Revenue</b>	<b>138,848,178</b>	<b>152,431,653</b>	<b>4,594,444</b>	<b>5,225,686</b>	<b>143,442,622</b>	<b>157,657,339</b>
<b>Expenses:</b>						
Instruction, curriculum and media services	75,980,223	82,416,306	-	-	75,980,223	82,416,306
Instructional and school leadership	8,071,868	8,875,351	-	-	8,071,868	8,875,351
Student support services	9,673,447	9,317,588	-	-	9,673,447	9,317,588
Food Services	177,471	176,246	4,597,395	5,267,863	4,774,866	5,444,109
Cocurricular activities	2,467,002	2,690,574	-	-	2,467,002	2,690,574
General administration	3,280,110	3,635,258	-	-	3,280,110	3,635,258
Plant maintenance, security & data processing	15,941,507	17,529,004	-	-	15,941,507	17,529,004
Community services	279,944	318,006	-	-	279,944	318,006
Debt services	15,207,471	23,932,981	-	-	15,207,471	23,932,981
Facilities acquisition, construction	3,628,911	6,831,385	-	-	3,628,911	6,831,385
Intergovernmental charges	129,745	181,849	-	-	129,745	181,849
<b>Total Expenses</b>	<b>134,837,699</b>	<b>155,904,548</b>	<b>4,597,395</b>	<b>5,267,863</b>	<b>139,435,094</b>	<b>161,172,411</b>
Increase (decrease) in net assets before transfers and special items	4,010,479	(3,472,895)	(2,951)	(42,177)	4,007,528	(3,515,072)
Transfers	-	(90,000)	-	90,000	-	-
Special Items	37,805	12,108	-	-	37,805	12,108
Net Assets – beginning of year	54,695,620	58,743,904	1,810,578	1,807,627	56,506,198	60,551,531
Adjustment to beginning capital assets	-	(9,837,120)	-	-	-	(9,837,120)
<b>Net Assets – end of year</b>	<b>58,743,904</b>	<b>45,355,997</b>	<b>1,807,627</b>	<b>1,855,450</b>	<b>60,551,531</b>	<b>47,211,447</b>

The District continued the maintenance and operations property tax rate of \$1.50 per \$100 valuation for fiscal year 2004-05. This is the maximum allowed by law. The debt service rate was set at \$.364 per \$100 valuation. These rates and the increase in total assessed valuation raised the District's tax revenues by \$10,672,278.

The Board of Trustees approved \$3,522,423 for growth positions and the opening of Providence Elementary School in 2004-05. A commitment to competitive salaries for the employees of the District was supported by salary increases for the year. In addition, \$600,000 previously funded by grants for reading positions was provided for with District operating funds.

The voters approved a \$152,330,000 bond election on September 11, 2004. The approval rate was 76.24%. The bond package included funds for four new elementary schools, two middle schools, an early childhood center, phase II of Guyer High School, renovations at two elementary schools and Ryan High School, technology upgrades and land acquisitions.

The District's extended day after school program was expanded from 6 campuses to all 14 elementary campuses for 2004-05, significantly increasing the tuition revenue from this activity.

The cost of all governmental activities for the current fiscal period was \$155,904,548. However, as shown in the Statement of Activities on pages 20 and 21, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$112,976,937 because some of the costs were paid by those who directly benefited from the programs (\$1,399,721) or by other governments and organizations that subsidized certain programs with grants and contributions (\$17,643,993) or by State equalization funding (\$15,374,736).

## **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.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$150,345,328 a decrease of \$7,534,764. Approximately 22.4 percent of this total amount (\$33,668,899) 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 1) for inventory (\$222,780), 2) to pay debt service (\$14,964,876), 3) to liquidate purchase orders of the prior period (\$50,136,623), 4) for capital projects (\$50,601,909), and 5) for other miscellaneous designations (\$750,241).

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 \$33,261,574, while the total fund balance was \$34,153,001. As a measure of the general fund's liquidity, it may be useful to compare both unreserved, undesignated fund balance and total fund balance to the total fund expenditures. Unreserved, undesignated fund balance represents 30.4 percent of the total general fund expenditures, while the total fund balance represents 31.2 percent of that same amount.

The fund balance of the District's general fund increased by \$5,530,819 during the current fiscal year. Key factors related to this change are as follows:

- An increase in the District's taxable value generated an increase in tax revenues of \$8,590,660. The District also realized an increase in general fund interest income of \$620,711 and an increase in the state foundation and per capita funding of \$452,936. The net total revenue for the general fund increased by \$9,729,488.

The debt service fund has a total fund balance of \$14,964,876, all of which is reserved for the payment of debt service. The net increase in fund balance during the period in the debt service fund was \$2,293,504.

Following are factors contributing to this change:

- The increase in the District's taxable value generated an increase of \$2,081,618 in tax revenues in the debt service fund.
- The District early-retired \$1,290,000 of bond principal from its Series 1995 bond series during the year ended June 30, 2005

Other changes in fund balances should also be noted. The fund balance in the capital projects fund decreased by \$75,191,549 due to \$77,651,374 spent on construction-related costs. Although these and other capital expenditures reduce available fund balances, they create new assets for the District as reported in the Statement of Net Assets and discussed in Note 4 to the financial statements.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in June, 2004). The second category includes changes that the Board made during the year to reflect new information regarding revenue sources and expenditure needs. The principal amendment in this case was an increase in the anticipated amount of State funding to be received. The third category involves amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

The District's General Fund balance of \$34,153,001 reported on page 23 differs from the General Fund's budgetary fund balance of \$30,409,764 reported in the budgetary comparison schedule on page 29. This is principally due to cost savings in several functional expenditure categories.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2005, the District had \$339,494,402 (net of accumulated depreciation) invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase of \$53,823,046, or 18.8 percent, above last year.

This fiscal year's major additions included:

Continuing construction costs on a new high school, paid for with proceeds of general obligation bonds issued in a prior year.	\$20,199,546
Initial construction costs on a new middle school, paid for with proceeds of general obligation bonds issued in a prior year.	6,560,435
Continuing construction costs on two new elementary schools, paid for with proceeds of general obligation bonds issued in a prior year.	20,542,150
Continuing costs on the renovation of an existing elementary school, paid for with proceeds of general obligation bonds issued in a prior year.	5,475,852
Continuing costs on other renovation projects ongoing at fiscal year-end, paid for with proceeds of general obligation bonds issued in a prior year.	2,576,853
Purchase of land for a future school site, paid for with proceeds of general obligation bonds issued in a prior year.	3,325,522
Totaling	58,680,358

More detailed information about the District's capital assets is presented in Note 4 to the financial statements.

#### Debt Administration

At year-end, the District had \$444,908,783 in bonds outstanding (including accreted interest on bonds) versus \$387,671,184 last year—an increase of 14.7 percent. The new debt incurred during the fiscal period included the issuance of \$114,100,445 of Series 2005 building and refunding bonds. The District's underlying rating for unlimited tax bonds is "AA" by S&P, and "AA-" by Fitch but is considered AAA as a result of guarantees of the Texas Permanent School Fund.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the District is \$596,321,953, which is significantly in excess of the District's outstanding general obligation debt.

Other obligations include accrued vacation benefits and special termination benefits. More detailed information about the District's long-term liabilities is presented in Note 5 to the financial statements.

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

- The District continued the maintenance and operations property tax rate of \$1.50 per \$100 valuation for fiscal year 2005-06. This is the maximum allowed by law. The debt service rate was set at \$.364 per \$100 valuation. Based on these rates and increases in the total assessed valuation, total property tax revenues are budgeted to increase by \$14,585,394 for 2005-06. State funding is expected to decline by \$ 149,955.
- The District experienced an increase in property values of 11.47% or \$645,838,064.
- The Board of Trustees approved \$8,336,434 for growth positions and the opening of Hawk Elementary School and Guyer High School. A commitment to competitive salaries for the employees of the District is supported by the increase of \$2,505,125 to the budget for salary increases (2 ½%).
- Lee Elementary School was rebuilt while students remained on campus. The new two-story classroom building opened in August 2004. The cafeteria, library and administrative areas opened in August 2005.
- Savannah Elementary School, Navo Middle School and the Advanced Technology Center are under construction and expected to open in August 2006.
- Hawk Elementary School was completed in the summer of 2005 and opened in August 2005 with expected enrollment of 643.
- Guyer High School opened in August 2005 with an expected enrollment of 970 for grades 9 through 11. In 2006-2007, grade 12 will be added to complete the four-year high school enrollment.

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

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for funds the District receives. If you have questions about this report or need additional financial information, contact the District's business office, at Denton Independent School District, 1307 North Locust, Denton, Texas 76201, (940) 369-0000.



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BASIC FINANCIAL STATEMENTS

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DENTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2005

Data Control Codes	1	2 Primary Government	3
	Governmental Activities	Business Type Activities	Total
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 180,920,526	\$ 1,122,859	\$ 182,043,385
1220 Property Taxes Receivable (Delinquent)	5,055,960	-	5,055,960
1230 Allowance for Uncollectible Taxes	(370,388)	-	(370,388)
1240 Due from Other Governments	4,268,425	-	4,268,425
1260 Internal Balances	9,674	(9,674)	-
1290 Other Receivables (net)	112,888	248	113,136
1300 Inventories	227,134	21,680	248,814
1410 Deferred Expenses	382,744	-	382,744
1420 Capitalized Bond & Other Debt Issuance Costs	2,760,500	-	2,760,500
1430 Discount on Issuance of Debt	(6,430,789)	-	(6,430,789)
Capital Assets:			
1510 Land	14,725,736	-	14,725,736
1520 Buildings, net	214,064,499	-	214,064,499
1530 Furniture and Equipment, net	7,623,357	954,043	8,577,400
1580 Construction in Progress	102,126,767	-	102,126,767
1000 Total Assets	<u>525,477,033</u>	<u>2,089,156</u>	<u>527,566,189</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	13,178,866	4,227	13,183,093
2150 Payroll Deductions & Withholdings	45,080	-	45,080
2160 Accrued Wages Payable	11,502,120	197,472	11,699,592
2180 Due to Other Governments	280,360	-	280,360
2200 Accrued Expenses	8,705,851	-	8,705,851
2300 Deferred Revenues	251,210	32,007	283,217
Noncurrent Liabilities			
2501 Due Within One Year	6,904,370	-	6,904,370
2502 Due in More Than One Year	439,253,179	-	439,253,179
2000 Total Liabilities	<u>480,121,036</u>	<u>233,706</u>	<u>480,354,742</u>
<b>NET ASSETS</b>			
3200 Net Assets	(10,566,894)	-	(10,566,894)
3200 Invested in Capital Assets, Net of Related Debt	-	954,043	954,043
3850 Restricted for Debt Service	14,964,876	-	14,964,876
3870 Restricted for Campus Activities	396,176	-	396,176
3900 Unrestricted Net Assets	40,561,839	901,407	41,463,246
3000 Total Net Assets	<u>\$ 45,355,997</u>	<u>\$ 1,855,450</u>	<u>\$ 47,211,447</u>

The accompanying notes are an integral part of this statement.

DENTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2005

Data Control Codes	1	Program Revenues	
		3	4
	Expenses	Charges for Services	Operating Grants and Contributions
<b>Primary Government:</b>			
GOVERNMENTAL ACTIVITIES:			
11 Instruction	\$ 77,856,883	\$ 900,977	\$ 11,257,298
12 Instructional Resources & Media Services	2,250,933	-	100,959
13 Curriculum and Staff Development	2,308,490	-	1,226,355
21 Instructional Leadership	1,953,858	-	242,280
23 School Leadership	6,921,493	-	462,210
31 Guidance, Counseling & Evaluation Services	5,251,747	-	891,540
32 Social Work Services	563,568	-	248,248
33 Health Services	1,308,451	-	105,330
34 Student (Pupil) Transportation	2,193,822	-	1,253,383
35 Food Services	176,246	-	175,626
36 Cocurricular/Extracurricular Activities	2,690,574	358,833	259,107
41 General Administration	3,635,258	-	111,552
51 Plant Maintenance and Operations	14,540,881	139,911	536,245
52 Security and Monitoring Services	354,506	-	2,491
53 Data Processing Services	2,633,617	-	98,387
61 Community Services	318,006	-	269,133
72 Debt Service - Interest on Long Term Debt	19,866,467	-	403,849
73 Debt Service - Bond Issuance Cost & Fees	4,066,514	-	-
81 Facilities Acquisition and Construction	6,831,385	-	-
93 Payments to Fiscal Agent/Member Districts of SSA	171,500	-	-
95 Payments to Juvenile Justice Alternative Ed. Prg.	10,349	-	-
[TG] Total Governmental Activities:	155,904,548	1,399,721	17,643,993
BUSINESS-TYPE ACTIVITIES:			
35 Enterprise Fund - National School Breakfast&Lunch	5,165,235	2,254,481	2,857,000
01 Stadium Concessions	102,628	89,349	-
[TB] Total Business-Type Activities:	5,267,863	2,343,830	2,857,000
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 161,172,411	\$ 3,743,551	\$ 20,500,993
Data Control Codes	General Revenues:		
MT	Taxes:		
DT	Property Taxes, Levied for General Purposes		
SF	Property Taxes, Levied for Debt Service		
GC	State Aid - Formula Grants		
IE	Grants & Contributions not Restricted		
MI	Investment Earnings		
S1	Miscellaneous Local and Intermediate Revenue		
E1	Special Item - Lease on Mineral Rights		
FR	Special Item - Gain on Sale of Capital Assets		
TR	Transfers In (Out)		
	Total General Revenues, Special Items, and Transfers		
CN	Change in Net Assets		
NB	Net Assets--Beginning		
PA	Prior Period Adjustment		
NE	Net Assets--Ending		

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets		
6	7	8
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (65,698,608)	\$ -	\$ (65,698,608)
(2,149,974)	-	(2,149,974)
(1,082,135)	-	(1,082,135)
(1,711,578)	-	(1,711,578)
(6,459,283)	-	(6,459,283)
(4,360,207)	-	(4,360,207)
(315,320)	-	(315,320)
(1,203,121)	-	(1,203,121)
(940,439)	-	(940,439)
(620)	-	(620)
(2,072,634)	-	(2,072,634)
(3,523,706)	-	(3,523,706)
(13,864,725)	-	(13,864,725)
(352,015)	-	(352,015)
(2,535,230)	-	(2,535,230)
(48,873)	-	(48,873)
(19,462,618)	-	(19,462,618)
(4,066,514)	-	(4,066,514)
(6,831,385)	-	(6,831,385)
(171,500)	-	(171,500)
(10,349)	-	(10,349)
(136,860,834)	-	(136,860,834)
-	(53,754)	(53,754)
-	(13,279)	(13,279)
-	(67,033)	(67,033)
(136,860,834)	(67,033)	(136,927,867)
90,907,404	-	90,907,404
22,069,533	-	22,069,533
15,374,736	-	15,374,736
1,024,226	-	1,024,226
3,682,993	24,856	3,707,849
329,047	-	329,047
3,414	-	3,414
8,694	-	8,694
(90,000)	90,000	-
133,310,047	114,856	133,424,903
(3,550,787)	47,823	(3,502,964)
58,743,904	1,807,627	60,551,531
(9,837,120)	-	(9,837,120)
\$ 45,355,997	\$ 1,855,450	\$ 47,211,447

DENTON INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2005

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 44,323,831	\$ 14,965,523	\$ 112,720,987
1220 Property Taxes - Delinquent	4,064,019	991,941	-
1230 Allowance for Uncollectible Taxes (credit)	(298,592)	(71,796)	-
1240 Due from Other Governments	1,682,605	-	-
1260 Due from Other Funds	110,312	-	26,775
1290 Other Receivables	20,998	-	45,000
1300 Inventories	222,780	-	-
1410 Deferred Expenditures	340,389	7,167	-
1000 Total Assets	<u>\$ 50,466,342</u>	<u>\$ 15,892,835</u>	<u>\$ 112,792,762</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
2110 Accounts Payable	\$ 694,787	\$ 7,814	\$ 12,072,177
2150 Payroll Deductions and Withholdings Payable	45,080	-	-
2160 Accrued Wages Payable	10,506,662	-	-
2170 Due to Other Funds	986,971	-	-
2180 Due to Other Governments	275,124	-	-
2300 Deferred Revenues	3,804,717	920,145	-
2000 Total Liabilities	<u>\$ 16,313,341</u>	<u>\$ 927,959</u>	<u>\$ 12,072,177</u>
Fund Balances:			
Reserved For:			
3410 Investments in Inventory	\$ 222,780	\$ -	\$ -
3420 Retirement of Long-Term Debt	-	14,964,876	-
3430 Prepaid Items	340,389	-	-
3440 Outstanding Encumbrances	17,947	-	50,118,676
3490 Other Purposes	-	-	-
Unreserved Designated For:			
3510 Construction	-	-	50,601,909
3590 Other Purposes	310,311	-	-
Unreserved and Undesignated:			
3600 Reported in the General Fund	33,261,574	-	-
3610 Reported in Special Revenue Funds	-	-	-
3630 Reported in Permanent Funds	-	-	-
3000 Total Fund Balances	<u>\$ 34,153,001</u>	<u>\$ 14,964,876</u>	<u>\$ 100,720,585</u>
4000 Total Liabilities and Fund Balances	<u>\$ 50,466,342</u>	<u>\$ 15,892,835</u>	<u>\$ 112,792,762</u>

The accompanying notes are an integral part of this statement.

Other Funds	Total Governmental Funds
\$ (608,857)	\$ 171,401,484
-	5,055,960
-	(370,388)
2,585,820	4,268,425
-	137,087
46,830	112,828
-	222,780
35,188	382,744
<u>\$ 2,058,981</u>	<u>\$ 181,210,920</u>
\$ 238,863	\$ 13,013,641
-	45,080
995,458	11,502,120
100,638	1,087,609
5,236	280,360
211,920	4,936,782
<u>\$ 1,552,115</u>	<u>\$ 30,865,592</u>
\$ -	\$ 222,780
-	14,964,876
-	340,389
-	50,136,623
1,000	1,000
-	50,601,909
98,541	408,852
-	33,261,574
396,176	396,176
11,149	11,149
<u>\$ 506,866</u>	<u>\$ 150,345,328</u>
<u>\$ 2,058,981</u>	<u>\$ 181,210,920</u>



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DENTON INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET ASSETS  
JUNE 30, 2005

<b>Total Fund Balances - Governmental Funds</b>	\$	150,345,328
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.		7,805,779
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 \$334,435,632 and the accumulated depreciation was \$49,816,931 resulting in a net addition of \$284,618,701. 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 resulting in a net decrease of \$389,387,704. 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 (decrease) net assets.		(104,769,003)
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 2005 capital outlays and debt principal payments is to increase net assets.		135,561,951
4 The 2005 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(9,643,817)
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 (decrease) net assets.		(133,944,241)
<b>19 Net Assets of Governmental Activities</b>	<b>\$</b>	<b>45,355,997</b>

The accompanying notes are an integral part of this statement.

DENTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ 93,753,238	\$ 22,228,974	\$ 2,459,825
5800 State Program Revenues	20,261,561	403,849	-
5900 Federal Program Revenues	437,468	-	-
5020 Total Revenues	<u>114,452,267</u>	<u>22,632,823</u>	<u>2,459,825</u>
<b>EXPENDITURES:</b>			
<b>Current:</b>			
0011 Instruction	65,634,260	-	-
0012 Instructional Resources & Media Services	2,113,218	-	-
0013 Curriculum & Instructional Staff Development	1,059,233	-	-
0021 Instructional Leadership	1,637,381	-	-
0023 School Leadership	6,296,687	-	-
0031 Guidance, Counseling & Evaluation Services	4,250,373	-	-
0032 Social Work Services	307,473	-	-
0033 Health Services	1,144,958	-	-
0034 Student (Pupil) Transportation	3,093,889	-	-
0035 Food Services	77,912	-	-
0036 Cocurricular/Extracurricular Activities	2,468,810	-	-
0041 General Administration	3,435,147	-	-
0051 Plant Maintenance and Operations	13,844,145	-	-
0052 Security and Monitoring Services	354,506	-	-
0053 Data Processing Services	2,431,563	-	-
0061 Community Services	57,066	-	-
<b>Debt Service:</b>			
0071 Debt Service - Principal on long-term debt	265,495	7,096,602	-
0072 Debt Service - Interest on long-term debt	17,411	13,374,518	-
0073 Debt Service - Bond Issuance Cost and Fees	-	140,502	-
<b>Capital Outlay:</b>			
0081 Facilities Acquisition and Construction	480,061	-	77,651,374
<b>Intergovernmental:</b>			
0093 Payments to Fiscal Agent/Member Districts of SSA	171,500	-	-
0095 Payments to Juvenile Justice Alternative Ed. Prg.	10,349	-	-
6030 Total Expenditures	<u>109,151,437</u>	<u>20,611,622</u>	<u>77,651,374</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>5,300,830</u>	<u>2,021,201</u>	<u>(75,191,549)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
7911 Capital-related Debt Issued (Regular Bonds)	-	58,818,545	60,720,379
7912 Sale of Real and Personal Property	8,694	-	-
7915 Transfers In	307,881	-	-
8911 Transfers Out (Use)	(90,000)	-	-
8949 Other (Uses)	-	(58,546,242)	(1,037,804)
7080 Total Other Financing Sources (Uses)	<u>226,575</u>	<u>272,303</u>	<u>59,682,575</u>
<b>SPECIAL ITEMS:</b>			
7918 Special Item - Mineral Lease	3,414	-	-
1200 Net Change in Fund Balances	5,530,819	2,293,504	(15,508,974)
0100 Fund Balance - July 1 (Beginning)	<u>28,622,182</u>	<u>12,671,372</u>	<u>116,229,559</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ 34,153,001</u>	<u>\$ 14,964,876</u>	<u>\$ 100,720,585</u>

The accompanying notes are an integral part of this statement.

	Total
Other Funds	Governmental Funds
\$ 1,348,376	\$ 119,790,413
2,457,273	23,122,683
8,110,478	8,547,946
<u>11,916,127</u>	<u>151,461,042</u>
8,387,983	74,022,243
27,700	2,140,918
1,165,744	2,224,977
179,972	1,817,353
205,964	6,502,651
696,747	4,947,120
228,584	536,057
58,921	1,203,879
41,686	3,135,575
98,334	176,246
77,918	2,546,728
26,392	3,461,539
289,681	14,133,826
-	354,506
22,210	2,453,773
258,404	315,470
-	7,362,097
-	13,391,929
-	140,502
-	78,131,435
-	171,500
-	10,349
<u>11,766,240</u>	<u>219,180,673</u>
<u>149,887</u>	<u>(67,719,631)</u>
-	119,538,924
-	8,694
-	307,881
-	(90,000)
-	(59,584,046)
<u>-</u>	<u>60,181,453</u>
-	3,414
<u>149,887</u>	<u>(7,534,764)</u>
<u>356,979</u>	<u>157,880,092</u>
<u>\$ 506,866</u>	<u>\$ 150,345,328</u>

DENTON 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 JUNE 30, 2005

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	(7,534,764)
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.		2,563,160
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 2005 capital outlays and debt principal payments is to increase net assets.		135,561,951
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.		(9,643,817)
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 (decrease) net assets.		(124,497,317)
<b>Change in Net Assets of Governmental Activities</b>	<u>\$</u>	<u>(3,550,787)</u>

The accompanying notes are an integral part of this statement.

DENTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2005

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 92,355,137	\$ 93,246,915	\$ 93,753,238	\$ 506,323
5800	State Program Revenues	14,377,556	20,008,807	20,261,561	252,754
5900	Federal Program Revenues	308,721	347,167	437,468	90,301
5020	Total Revenues	107,041,414	113,602,889	114,452,267	849,378
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	75,768,708	67,531,335	65,634,260	1,897,075
0012	Instructional Resources & Media Services	431,964	2,141,041	2,113,218	27,823
0013	Curriculum & Instructional Staff Development	240,374	1,116,626	1,059,233	57,393
0021	Instructional Leadership	1,915,421	1,653,289	1,637,381	15,908
0023	School Leadership	1,077,740	6,438,387	6,296,687	141,700
0031	Guidance, Counseling & Evaluation Services	2,135,888	4,336,429	4,250,373	86,056
0032	Social Work Services	105,667	318,588	307,473	11,115
0033	Health Services	211,599	1,164,057	1,144,958	19,099
0034	Student (Pupil) Transportation	2,823,756	3,078,725	3,093,889	(15,164)
0035	Food Services	-	79,310	77,912	1,398
0036	Cocurricular/Extracurricular Activities	1,852,676	2,596,710	2,468,810	127,900
0041	General Administration	3,750,011	3,515,795	3,435,147	80,648
0051	Plant Maintenance and Operations	13,646,660	14,070,301	13,844,145	226,156
0052	Security and Monitoring Services	315,640	393,231	354,506	38,725
0053	Data Processing Services	1,626,637	2,588,100	2,431,563	156,537
0061	Community Services	20,938	57,592	57,066	526
0071	Debt Service - Principal on long-term debt	290,470	265,495	265,495	-
0072	Debt Service - Interest on long-term debt	17,411	43,067	17,411	25,656
0081	Facilities Acquisition and Construction	508,083	480,158	480,061	97
0093	Payments to Fiscal Agent/Member Districts of SSA	117,500	171,500	171,500	-
0095	Payments to Juvenile Justice Alternative Ed. Prg.	30,000	10,800	10,349	451
6030	Total Expenditures	106,887,143	112,050,536	109,151,437	2,899,099
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	154,271	1,552,353	5,300,830	3,748,477
<b>OTHER FINANCING SOURCES (USES):</b>					
7912	Sale of Real and Personal Property	500	8,694	8,694	-
7915	Transfers In	307,881	307,881	307,881	-
8911	Transfers Out (Use)	-	(90,000)	(90,000)	-
7080	Total Other Financing Sources (Uses)	308,381	226,575	226,575	-
<b>SPECIAL ITEMS:</b>					
7918	Special Item - Mineral Lease	-	8,654	3,414	(5,240)
1200	Net Change in Fund Balances	462,652	1,787,582	5,530,819	3,743,237
0100	Fund Balance - July 1 (Beginning)	28,622,182	28,622,182	28,622,182	-
3000	Fund Balance - June 30 (Ending)	\$ 29,084,834	\$ 30,409,764	\$ 34,153,001	\$ 3,743,237

The accompanying notes are an integral part of this statement.

DENTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2005

EXHIBIT D-1

	Business-Type Activities -	Governmental Activities -
	Total Enterprise Funds	Total Internal Service Funds
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 1,122,859	\$ 9,519,042
Due from Other Funds	-	960,196
Other Receivables	248	60
Inventories	21,680	4,354
Total Current Assets	<u>1,144,787</u>	<u>10,483,652</u>
Noncurrent Assets:		
Capital Assets:		
Furniture and Equipment	3,270,894	25,672
Depreciation on Furniture and Equipment	(2,316,851)	(16,117)
Total Noncurrent Assets	<u>954,043</u>	<u>9,555</u>
Total Assets	<u>2,098,830</u>	<u>10,493,207</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts Payable	4,227	165,225
Accrued Wages Payable	197,472	-
Due to Other Funds	9,674	-
Accrued Expenses	-	2,512,648
Deferred Revenues	32,007	-
Total Liabilities	<u>243,380</u>	<u>2,677,873</u>
<b>NET ASSETS</b>		
Investments in Capital Assets, Net of Debt	954,043	9,555
Unrestricted Net Assets	<u>901,407</u>	<u>7,805,779</u>
Total Net Assets	<u>\$ 1,855,450</u>	<u>\$ 7,815,334</u>

The accompanying notes are an integral part of this statement.

DENTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	Business-Type Activities -	Governmental Activities -
	Total Enterprise Funds	Total Internal Service Funds
<b>OPERATING REVENUES:</b>		
Local and Intermediate Sources	\$ 2,300,865	\$ 13,317,786
State Program Revenues	<u>42,965</u>	<u>-</u>
Total Operating Revenues	<u>2,343,830</u>	<u>13,317,786</u>
<b>OPERATING EXPENSES:</b>		
Payroll Costs	2,132,757	266,054
Professional and Contracted Services	178,493	1,168,816
Supplies and Materials	2,739,144	83,574
Other Operating Costs	<u>217,469</u>	<u>9,086,436</u>
Total Operating Expenses	<u>5,267,863</u>	<u>10,604,880</u>
Operating Income (Loss)	<u>(2,924,033)</u>	<u>2,712,906</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
National School Breakfast Program	510,659	-
National School Lunch Program	2,141,733	-
Donated Commodities (USDA)	204,608	-
Earnings from Temporary Deposits & Investments	<u>24,856</u>	<u>161,665</u>
Total Nonoperating Revenue (Expenses)	<u>2,881,856</u>	<u>161,665</u>
Income Before Transfers	(42,177)	2,874,571
Transfer In	90,000	-
Transfers Out	<u>-</u>	<u>(307,881)</u>
Change in Net Assets	47,823	2,566,690
Total Net Assets - July 1 (Beginning)	<u>1,807,627</u>	<u>5,248,644</u>
Total Net Assets - June 30 (Ending)	<u>\$ 1,855,450</u>	<u>\$ 7,815,334</u>

The accompanying notes are an integral part of this statement.



DENTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

EXHIBIT D-3

	Business-Type Activities	Governmental Activities -
	Total	Total
	Enterprise	Internal
	Funds	Service Funds
<b>Cash Flows from Operating Activities:</b>		
Cash Received from District	\$ -	\$ 8,010,818
Cash Received from Charges and Fees	2,352,446	315,920
Cash Received from Employees	-	4,103,140
Cash Payments for Payroll Costs	(2,119,816)	(266,407)
Cash Payments for Purchased Services	(178,493)	(1,172,801)
Cash Payments for Supplies and Materials	(2,719,881)	(80,160)
Cash Payments for Other Expenses	(14,300)	(1,252,278)
Cash Payments for Claims	-	(7,698,337)
Net Cash Provided by (Used for) Operating Activities	(2,680,044)	1,959,895
<b>Cash Flows from Non-Capital Financing Activities:</b>		
Cash Received from Federal Programs	2,857,000	-
Operating Transfer In (Out)	90,000	(307,881)
Net Cash Provided by (Used for) Non-Capital Financing Activities	2,947,000	(307,881)
<b>Cash Flows from Capital &amp; Related Financing Activities:</b>		
Acquisition of Capital Assets	(104,557)	(6,504)
<b>Cash Flows from Investing Activities:</b>		
Interest and Dividends on Investments	24,856	161,665
Net Increase in Cash and Cash Equivalents	187,255	1,807,175
Cash and Cash Equivalents at Beginning of the Year:	935,604	7,711,867
Cash and Cash Equivalents at the End of the Year:	\$ 1,122,859	\$ 9,519,042
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</b>		
Operating Income (Loss):	\$ (2,924,033)	\$ 2,712,906
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:</b>		
Depreciation	203,169	2,975
<b>Effect of Increases and Decreases in Current Assets and Liabilities:</b>		
(Increase) decrease in Other Receivables	(248)	14,768
(Increase) decrease in Inventories	25,078	(212)
(Increase) decrease in Deferred Expenditures	-	225
(Increase) decrease in Due from Other Funds	3,218	(887,849)
Increase (decrease) in Accounts Payable	(6,119)	(124,309)
Increase (decrease) in Accrued Wages Payable	12,941	-
Increase (decrease) in Due to Other Funds	304	-
Increase (decrease) in Accrued Expenses	-	241,391
Increase (decrease) in Deferred Revenues	5,646	-
Net Cash Provided by (Used for) Operating Activities	\$ (2,680,044)	\$ 1,959,895

The accompanying notes are an integral part of this statement.

DENTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2005

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	Agency Funds
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ASSETS	
Cash and Cash Equivalents	\$ 505,695
Total Assets	<u>\$ 505,695</u>
LIABILITIES	
Due to Student Groups	\$ 505,695
Total Liabilities	<u>\$ 505,695</u>

The accompanying notes are an integral part of this statement.

DENTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

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

Denton Independent School District's (the "District") combined financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

**A. REPORTING ENTITY**

The Board of Trustees, a seven member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the District. The board of trustees are elected by the public. The trustees as a body corporate have the exclusive power and duty to govern and oversee the management of the public schools of the district. All powers and duties not specifically delegated by statute to the Texas Education Agency (Agency) or to the State Board of Education are reserved for the trustees, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards.

The District's basis financial statements include the accounts of all District operations. The criteria for including organizations as component units within the District's reporting entity, as set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards, include whether:

- the organization is legally separate (can sue and be sued in their own name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

Based on the aforementioned criteria, the Denton Independent School District has no component units.

**B. BASIS OF PRESENTATION**

The government-wide financial statements (the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the District. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

DENTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

Fund Financial Statements:

The District segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The District has presented the following major governmental funds:

1. **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.
2. **Debt Service Fund** - This fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.
2. **Capital Projects Fund** - This fund is established to account for proceeds, from the sale of bonds and other resources to be used for Board authorized acquisition, construction, or renovation, as well as, furnishings and equipping of major capital facilities. Upon completion of a project, any unused bond proceeds are transferred to the Debt Service Fund and are used to retire related bond principal.

Additionally, the District reports the following fund types:

1. **Special Revenue Funds** - These funds are established to account for federally financed or expenditures legally restricted for specified purposes. In many special revenue funds, any unused balances are returned to the grantor at the close of specified project periods. For funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.
2. **Enterprise Fund** - The District utilizes enterprise funds to account for the Districts' activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities. The District uses this fund to account for its food service operations and for its athletic stadium concessions, because these programs are self-supporting and do not require subsidies from the general fund.
3. **Internal Service Funds** - The District utilizes Internal Service Funds to account for revenues and expenses related to services provided to parties inside the District on a cost reimbursement basis. These funds facilitate distribution of support costs to the users of support services. The District has internal service funds for its health and workers compensation self-insurance plans, and its print shop.

DENTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

4. **Agency Funds** - These custodial funds are used to account for activities of student groups and other organizational activities requiring clearing accounts. 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. If any unused resources are declared surplus by the student groups, they are transferred to the General Fund with a recommendation to the Board for an appropriate utilization through a budgeted program.

The enterprise funds and internal service funds are proprietary fund types. Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

**C. MEASUREMENT FOCUS/BASIS OF ACCOUNTING**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net assets and the operating statements present increases (revenues) and decreases (expenses) in net total assets. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized at the time the liability is incurred.

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within 60 days after year-end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenue susceptible to accrual are property taxes, charges for services, interest income and intergovernmental revenues. All other Governmental Fund Type revenues are recognized when received.

DENTON INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2005

Revenues from state and federal grants are recognized as earned when the related program expenditures are incurred. Funds received but unearned are reflected as deferred revenues, and funds expended but not yet received are shown as receivables.

Revenue from investments, including governmental external investment pool, is based upon 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. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

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

**D. BUDGETARY CONTROL**

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

The official school budget is prepared for adoption for required Governmental Fund Types prior to June 20 of the preceding fiscal year for the subsequent fiscal year beginning July 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within Fund Groups at the function code level and revenue object code level.

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

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

June 30, 2005 <u>Fund Balance</u>	
Appropriated Budget Funds	\$ -0-
Nonappropriated Budget Funds	<u>494,717</u>
All Special Revenue Funds	<u>\$494,717</u>

DENTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

**E. PREPAID ITEMS**

Prepaid balances are for payments made by the District in the current year to provide services occurring in the subsequent fiscal year, and the reserve for prepaid items has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures.

**F. INVENTORIES**

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

**G. INTERFUND RECEIVABLES AND PAYABLES**

Short-term amounts owed between funds are classified as "Due to/from other funds". Interfund loans are classified as "Advances to/from other funds" and are offset by a fund balance reserve account. Any residual balances outstanding between the governmental activities and business-type activities are reported in the governmental-wide financial statements as "internal balances" and "internal advances".

**H. CAPITAL ASSETS**

Capital assets, which includes property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant and equipment.

Assets capitalized have an original cost of \$5,000 or more and over one-year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20-40 Years
Furniture and Equipment	10 Years

**I. COMPENSATED ABSENCES**

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

DENTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

**J. NATURE AND PURPOSE OF RESERVATIONS AND DESIGNATIONS OF FUND BALANCES**

The District classifies fund balances as follows:

- A. Reserves – Used to denote that portion of fund balance, which is not appropriable for expenditure or is legally segregated for specific future use.
  - 1. Reserve for encumbrances represents commitments for expenditures through purchase orders.
  - 2. Reserve for funded indebtedness represents that portion of fund balance legally restricted to debt service.
  - 3. Reserve for inventories represents that portion of fund balance already expended on supplies held for consumption in a future period.
  - 4. Reserve for prepaid costs represents that portion of fund balance already disbursed on insurance premiums, lease contracts and other items which are expenditures of a future period.
  - 5. Reserve for other purposes represents the portion of fund balance held in a permanent trust, the earnings on which are to be used for playground equipment within the District.
- B. Designations – Used to indicate tentative plans for financial resource utilization:
  - 1. Designated for future construction represents management’s intent to utilize resources for construction.
  - 2. Designated for other purposes represents management’s intent to utilize resources for specific purposes identified and already approved by the Board.
- C. Undesignated – Used to denote that portion of fund balance which is available for appropriation.

**K. CASH EQUIVALENTS**

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

**L. NET ASSETS**

Net assets represents the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciations, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.



DENTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

**M. LONG-TERM OBLIGATIONS**

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**N. IMPLEMENTATION OF NEW ACCOUNTING PRINCIPLES**

In fiscal year 2002, the District implemented GASB Statement No. 33 (GASB 33), "Accounting and Financial Reporting for Nonexchange Transactions", GASB Statement No. 34 (GASB 34), "Basic Financial Statements – Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 37 (GASB 37), "Basis Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus" and GASB Statements No. 38 (GASB 38), "Certain Financial Statement Disclosures".

GASB 34 created new basis financial statements for reporting on the District's financial activities. The financial statements now include government-wide financial statements prepared on an accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Non-major funds are presented in total in one column.

The government-wide financial statements split the District programs between governmental and business-type activities.

**O. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2005, the district purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

**P. ESTIMATES**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net assets.

DENTON INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2005

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide statement of net assets. One element of that reconciliation explains that 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 details of this \$135,561,951 adjustment are as follows:

Current year capital outlay	\$ 73,402,595
Bond principal payments	7,096,602
Lease principal payments	265,495
Other long-term debt principal payments	202,259
Bonds refunded	<u>54,595,000</u>
Net adjustment	<u>\$135,561,951</u>

Another element of that reconciliation state that: “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 details of this \$(133,944,241) adjustment are as follows:

Deferred tax revenue recognized as revenue	\$ 4,685,572
Accrued interest payable on bonds and leases	(6,193,203)
Change in accreted interest on bonds	(4,828,756)
Capitalization of net bond issuance costs/ premiums	(3,670,289)
Bond sale proceeds	(114,100,445)
Adjustment to beginning capital assets	<u>(9,837,120)</u>
Net adjustment	<u>\$(133,944,241)</u>

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities: One element of that reconciliation explains that “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 details of this \$(124,497,317) adjustment are as follows:

Current year change in deferred tax revenue	\$ (453,111)
Current year change in accrued interest payable on bonds and leases	(1,645,782)
Change in accreted interest on bonds	(4,828,756)
Capitalization of net bond issuance costs/ premium on current year bond issuance	(4,351,129)
Amortization of bond issuance costs/premiums	(24,316)
Bond sale proceeds	<u>(114,100,445)</u>
Net adjustment	<u>\$(124,497,317)</u>

DENTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

**NOTE 3. DEPOSITS AND INVESTMENTS**

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

1. Cash Deposits:

At June 30, 2005, the carrying amount of the District's deposits checking accounts and interest-bearing savings accounts was \$2,603,302 and the bank balance was \$7,065,399. The District's cash deposits at June 30, 2005 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The 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 Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The district is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

- a. Custodial Credit Risk – Deposits: In the case of deposits, this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2005, the District's cash balances totaled \$2,603,302. This entire amount was either collateralized with securities held by the District's financial institution's agent in the District's name or covered by FDIC insurance. Thus, the District's deposits are not exposed to custodial credit risk.
- b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At June 30, 2005, the District held all of its investments in three public funds investment pools (TexPool, Lone Star and TexStar). Investments in external investment pools are considered unclassified as to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form.
- c. Credit Risk - This is the risk that an issuer or other counterparty to an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The credit quality rating for TexPool and TexStar at year-end was AAAM (Standard & Poor's), and the credit quality rating for Lone Star was AA Af (Standard & Poor's).

DENTON INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2005

- d. Interest Rate Risk - This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for both the TexPool and TexStar investments is less than 60 days, and the weighted average maturity for the Lone Star investments is less than 120 days.
- e. Foreign Currency Risk - This is the risk that exchange rates will adversely affect the fair value of an investment. At June 30, 2005, the District was not exposed to foreign currency risk.
- f. Concentration of Credit Risk - This is the risk of loss attributed to the magnitude of the District's investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investment pools are excluded from the 5 percent disclosure requirement.

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.

The District's investments at June 30, 2005, are shown below:

<u>Name</u>	<u>Carrying Amount</u>	<u>Market Value</u>
TexPool	\$ 58,598,739	\$ 58,584,675
TexStar	51,922,261	51,889,862
Lone Star	<u>69,424,778</u>	<u>69,415,755</u>
Total	<u>\$ 179,945,778</u>	<u>\$ 179,890,292</u>

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**NOTE 4. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2005, was as follows:

	Balance July 1	Additions/ Completions	Retirement/ Adjustments	Balance June 30
<b>Governmental Activities:</b>				
Land	\$ 10,473,626	\$ 3,325,522	\$ 926,588	\$ 14,725,736
Construction in Progress	74,548,144	62,887,188	(35,308,565)	102,126,767
Buildings and Improvements	235,965,064	36,679,178	(2,462,200)	270,182,042
Furniture and Equipment	<u>13,448,798</u>	<u>2,179,310</u>	<u>848,428</u>	<u>16,476,536</u>
Totals at historic cost	<u>334,435,632</u>	<u>105,071,198</u>	<u>(35,995,749)</u>	<u>403,511,081</u>
Less accumulated depreciation for:				
Buildings and Improvements	(42,755,457)	(8,471,607)	(4,890,479)	(56,117,543)
Furniture and Equipment	<u>(7,061,474)</u>	<u>(1,172,210)</u>	<u>(619,495)</u>	<u>(8,853,179)</u>
Total accumulated depreciation	<u>(49,816,931)</u>	<u>(9,643,817)</u>	<u>(5,509,974)</u>	<u>(64,970,722)</u>
Governmental activities capital assets, net	<u>\$284,618,701</u>	<u>\$ 95,427,381</u>	<u>\$ (41,505,723)</u>	<u>\$338,540,359</u>
<b>Business-type activities:</b>				
Furniture and Equipment	\$ 3,166,337	\$ 104,557	-	\$ 3,270,894
Totals at historic cost	<u>3,166,337</u>	<u>104,557</u>	<u>-</u>	<u>3,270,894</u>
Less accumulated depreciation for:				
Furniture and Equipment	<u>(2,113,682)</u>	<u>(203,169)</u>	<u>-</u>	<u>(2,316,851)</u>
Total accumulated depreciation	<u>(2,113,682)</u>	<u>(203,169)</u>	<u>-</u>	<u>(2,316,851)</u>
Business-type activities capital assets net	<u>\$ 1,052,655</u>	<u>\$ (98,612)</u>	<u>\$ -</u>	<u>\$ 954,043</u>

The retirement/adjustments column above includes a decrease in beginning net governmental activities capital assets of \$9,837,120, to reflect corrections to the historical cost and accumulated depreciation of certain prior year capital assets.

Depreciation expense was charged as direct expense to programs of the District as follows:

<b>Governmental activities:</b>	
Instruction	\$ 6,194,172
Instructional Resources & Media Services	174,628
Curriculum & Instructional Staff Development	83,513
Instructional Leadership	136,505
School Leadership	593,627
Guidance, Counseling & Evaluation Services	397,705
Social Work Services	27,511
Health Services	104,572
Student (Pupil) Transportation	713,154
Cocurricular/Extracurricular Activities	143,846
General Administration	176,694
Plant Maintenance and Operations	715,510
Data Processing Services	179,844
Community Services	<u>2,536</u>
Total depreciation expense-Governmental activities	<u>\$ 9,643,817</u>
<b>Business-type activities:</b>	
Food Services	\$ 196,427
Stadium Concessions	<u>6,742</u>
Total depreciation expense Business-type activities	<u>\$ 203,169</u>

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**NOTE 5. LONG-TERM DEBT**

Long-term debt includes par bonds, capital appreciation (deep discount) serial bonds, capital leases, compensated absences, interest rate swap agreements, and special termination benefits. All long-term debt represents transactions in the District's governmental activities. No long-term debt exists in the District's business-type activities.

The 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 the District.

The following is a summary of the changes in the District's Long-term Debt for the year ended June 30, 2005:

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Outstanding 7/1/04</u>	<u>Additions</u>	<u>Refunded/ Retired</u>	<u>Amounts Outstanding 6/30/05</u>	<u>Due Within One Year</u>
<b>Bonded Indebtedness:</b>						
1992 School Bldg.	6.75-8.70%	\$ 765,000	\$ --	\$ 365,000	\$ 400,000	\$ 400,000
1992 Refunding	2.90-6.25%	3,905,000	--	770,000	3,135,000	825,000
1993 Refunding	2.60-5.00%	10,240,000	--	1,000,000	9,240,000	1,480,000
1995 School Bldg.	5.00-7.00%	3,785,000	--	1,290,000	2,495,000	290,000
1996A School Bldg.	5.00-7.00%	620,000	--	170,000	450,000	170,000
1996B School Bldg.	1.55%	19,400,000	--	--	19,400,000	--
1998 Bldg/Refunding	4.20-5.50%	28,355,000	--	23,545,000	4,810,000	190,000
1999 Bldg/Refunding	3.50-5.38%	32,510,000	--	22,075,000	10,435,000	305,000
1999 Bldg/Ref CAB	4.60-5.20%	4,860,562	--	466,602	4,393,960	822,115
2000 School Bldg.	3.00%	13,400,000	--	--	13,400,000	--
2001 Bldg/Refunding	3.64-4.40%	59,565,000	--	12,010,000	47,555,000	1,430,000
2001 Bldg/Ref CAB	4.37-4.59%	3,036,903	--	--	3,036,903	--
2002 Bldg/Refunding	5.00%	40,235,000	--	--	40,235,000	--
2002 Bldg/Ref CAB	3.58-5.88%	69,195,676	--	--	69,195,676	--
2004 Bldg/Refunding	2.58-5.00%	84,070,000	--	--	84,070,000	--
2004 Bldg/Ref CAB	2.60-3.04%	1,747,457	--	--	1,747,457	--
2005A Building	Variable	--	46,500,000	--	46,500,000	--
2005B Bldg/Refunding	3.00-5.00%	--	13,315,000	--	13,315,000	--
2005B Bldg/Ref CAB	3.45-4.13%	--	4,045,445	--	4,045,445	--
2005C Refunding	3.00-5.00%	--	50,240,000	--	50,240,000	315,000
<b>Total Bonded Indebtedness</b>		<u>375,690,598</u>	<u>114,100,445</u>	<u>61,691,602</u>	<u>428,099,441</u>	<u>6,227,115</u>
Accreted Interest	4.10-5.20%	11,980,586	4,947,154	118,398	16,809,342	262,885
Capital Leases		641,515	--	265,495	376,020	299,496
Accrued Vacation Benefits		626,244	246,244	217,035	655,453	--
Special Termination Benefits		448,761	--	231,468	217,293	114,874
<b>Total Other Obligations</b>		<u>13,697,106</u>	<u>5,193,398</u>	<u>832,396</u>	<u>18,058,108</u>	<u>677,255</u>
<b>Total Obligations of District</b>		<u>\$389,387,704</u>	<u>\$ 119,293,843</u>	<u>\$62,523,998</u>	<u>\$446,157,549</u>	<u>\$6,904,370</u>

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The 1999, 2001, 2002, 2004 and 2005 bond series include outstanding capital appreciation bonds in the principal amount of \$82,419,441. The bonds mature variously beginning in 2005 through 2031. Interest accrues on these bonds each February 15 and August 15, even though the interest is not paid until maturity. The accrued interest of \$16,809,342 is accounted for in the Statement of Net Assets as Accrued Interest Payable-Capital Appreciation Bonds.

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the District. General Obligation Bonds require the District to compute, at the time taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The District is in compliance with this requirement.

There are a number of limitations and restrictions contained in the various general obligation bonds indentures. The District is in compliance with all significant limitations and restrictions at June 30, 2005.

#### Interest Rate Swap Agreements

As a means to reduce its borrowing cost in comparison to the issuance of traditional fixed rate bonds at the time of issuance, on January 27, 2005 the District entered into an interest rate swap transaction pursuant to agreements (the "Swap Agreements") with Bear Stearns Financial Products Inc. ("BSFP") and UBS AG ("UBS"), each in an original notional amount of \$23,250,000, in order to synthetically fix the interest obligation on the District's \$46,500,000 Variable Rate Unlimited Tax School Building Bonds, Series 2005-A (the "Bonds"). The Swap Agreements and the Bonds were issued at the same time.

Under the Swap Agreements, the District is obligated to make payments to BSFP and UBS calculated on a notional amount that is equal to the scheduled outstanding principal amount of the Bonds at a fixed rate of 3.42% per annum and BSFP and UBS are each obligated to make floating rate payments to the District calculated on a notional amount that is equal to the scheduled outstanding principal amount of the Bonds at a rate equal to 67% of the one-month London Interbank Offered Rate (LIBOR) for U.S. deposits. The Bonds and the Swap Agreements have a stated final maturity date of August 1, 2035.

Arrangements made in respect of the Swap Agreements do not alter the District's obligation to pay principal of and interest on the Bonds. The Swap Agreements do not provide a source of security or other credit for the Bonds. The District's obligations under the Swap Agreements are secured by a levy of an annual ad valorem tax on a parity with the District's obligation to pay principal and interest on the Bonds.

As of June 30, 2005, the District was not exposed to credit risk because the Swap Agreements had a negative fair value of \$1,431,673 due to certain factors. However, should interest rates change and the fair value of the Swap Agreements become positive, the District would be exposed to credit risk in the amount of the fair value of the Swap Agreements.

As of June 30, 2005, BSFP was rated "Aaa" and "AAA" by Moody's Investors Service ("Moody's") and Standard & Poor's ("S&P"), respectively, while UBS was rated "Aa2," "AA+" and "AA+" by Moody's, S&P and Fitch Ratings ("Fitch"), respectively.

The Swap Agreements are subject to mandatory redemption in the event of default or as follows:

Agreement with BSFP: If the ratings assigned to the District's unenhanced long-term debt obligations are withdrawn or reduced to "BBB" by S&P, "BBB" by Fitch or "Ba1" by Moody's (if Moody's, S&P and Fitch assign ratings to the District's unenhanced long-term debt obligations) or "BBB+" by S&P or Fitch (if Moody's does not assign ratings to the District's unenhanced long-term debt obligations), or if the ratings assigned to BSFP's unenhanced long-term debt obligations are withdrawn or reduced to "BBB" by S&P or "Baa2" by Moody's.

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Agreement with UBS: If the ratings assigned to either the District's or UBS's unenhanced long-term debt obligations are withdrawn or reduced to "BBB+" by S&P or "BBB+" by Fitch.

The Swap Agreements are also subject to optional termination by the District at any time over the term of the Swap Agreements at the then prevailing market value. BSFP and UBS do not have the elective right to optionally terminate the Swap Agreements.

As of June 30, 2005, the debt service requirements of the Bonds were as follows. As interest rates change in the future, the differences between the floating rates payable to the District under the Swap Agreements and the actual interest rates payable by the District on the Bonds will vary.

Year Ended <u>June 30</u>	<u>Variable-Rate Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ -0-	\$ 1,786,220	\$ 1,786,220
2007	-0-	1,869,300	1,869,300
2008	-0-	1,869,300	1,869,300
2009	-0-	1,869,300	1,869,300
2010	-0-	1,869,300	1,869,300
2011-2015	-0-	9,346,500	9,346,500
2016-2020	7,440,000	8,760,786	16,200,786
2021-2025	9,970,000	6,863,949	16,833,949
2026-2030	11,770,000	4,695,159	16,465,159
2031-2035	14,130,000	2,105,877	16,235,877
2036	<u>3,190,000</u>	<u>64,119</u>	<u>3,254,119</u>
Totals	<u>\$ 46,500,000</u>	<u>\$ 41,099,810</u>	<u>\$ 87,599,810</u>

Interest was calculated at a rate, representing the sum of: (a) the actual fixed payment swap rate of 3.420% pursuant to the Swap Agreements; (b) the estimated cost of the liquidity facility for the Bonds (0.050%); (c) the estimated cost of remarketing the Bonds (0.200%); and (d) 0.350% per year to offset the potential differences between the floating rates payable to the District under the Swap Agreements and the actual interest rates payable by the District on the Bonds.

**NOTE 6. DEBT SERVICE REQUIREMENTS - BONDS**

Debt service requirements to maturity are as follows (excluding maturities on the 2005-A issue, which is reflected in Note 5 above):

Year Ended <u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u> <u>Requirements</u>
2006	\$ 6,227,115	\$ 14,136,685	\$ 20,363,800
2007	7,937,021	13,852,137	21,789,158
2008	9,886,213	14,178,311	24,064,524
2009	10,760,962	14,116,092	24,877,054
2010	11,957,975	13,755,803	25,713,778
2011-2015	79,121,908	64,599,146	143,721,054
2016-2020	75,149,072	58,009,775	133,158,847
2021-2025	59,792,160	71,304,409	131,096,569
2026-2030	56,039,525	75,965,850	132,005,375
2031-2035	<u>64,727,490</u>	<u>37,271,009</u>	<u>101,998,499</u>
	<u>\$381,599,441</u>	<u>\$377,189,217</u>	<u>\$758,788,658</u>



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**NOTE 7. DEFEASED BONDS OUTSTANDING**

On February 15, 2005 the District issued \$13,315,000 (par value) in unlimited tax building/refunding bonds (current interest bonds) with interest rates ranging from 3.0% to 5.0%, and \$4,045,445 in unlimited tax refunding bonds (capital appreciation bonds) with yields to maturity ranging from 3.45% to 4.13%, to advance refund \$3,740,000 of unlimited tax school building bonds and provide funds for various construction projects. The unlimited tax building/refunding bonds were issued at a net premium of \$905,379, and, after paying issuance costs of \$193,488, the net proceeds were \$18,122,499. \$14,270,542 of the net proceeds were deposited into the District's accounts. \$3,851,958 of the net proceeds from the issuance of the unlimited tax refunding bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bond mature. The advance refunding met the requirements of an in-substance debt defeasance and the unlimited tax school building bonds were removed from the District's long-term liabilities.

As a result of the advance refunding, the District increased its total debt service requirements by \$1,295,315, which resulted in an economic loss (difference between the present value of the debt service payments on the old and new debt) of \$266,162.

Also on February 15, 2005 the District issued \$50,240,000 (par value) in unlimited tax refunding bonds (current interest bonds) with interest rates ranging from 3.0% to 5.0% to advance refund \$50,855,000 of unlimited tax school building bonds. The unlimited tax refunding bonds were issued at a net premium of \$4,272,840, and, after paying issuance costs of \$439,989, the net proceeds were \$54,072,850. The net proceeds from the issuance of the unlimited tax refunding bonds were used to purchase U.S. government securities and those securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments until the bond mature. The advance refunding met the requirements of an in-substance debt defeasance and the unlimited tax school building bonds were removed from the District's long-term liabilities.

As a result of the advance refunding, the District reduced its total debt service requirements by \$3,251,044, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$2,417,184.

In prior years, the District has defeased other various bond issues in a similar manner to that described above.

Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. Although defeased, the refunded debt from those earlier issues will not be actually retired until the call dates have come due or until maturity if they are not callable issues. On June 30, 2005, \$75,470,000 of bonds outstanding are considered defeased.

**NOTE 8. CAPITAL LEASES**

A summary of changes in capital leases payable for the year ended June 30, 2005 is as follows:

<u>Description</u>	<u>Interest Rate</u>	<u>Amount Outstanding 7-1-04</u>	<u>Issued Current Year</u>	<u>Retired Current Year</u>	<u>Amount Outstanding 6-30-05</u>	<u>Due Within One Year</u>
Fitness Equipment	3.30%	<u>\$ 641,515</u>	\$ --	<u>\$ 265,495</u>	<u>\$ 376,020</u>	<u>\$ 299,496</u>
Total		<u>\$ 641,515</u>	<u>\$ --</u>	<u>\$ 265,495</u>	<u>\$ 376,020</u>	<u>\$ 299,496</u>

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**NOTE 9. SPECIAL TERMINATION BENEFITS**

During the year ended August 31, 1997, the District adopted a Voluntary Exit Program for the purpose of rewarding eligible employees with compensation upon their voluntary leave from employment with the District, without regard to having reached the retirement provisions of the Teacher Retirement System of Texas.

From 1997 through 2001, any employee with a minimum of 25 years experience, at least 15 years of which had been with the District and at least the immediately preceding 5 years, was eligible to receive upon voluntary leave from employment a percentage of the employee's base salary, ranging from 50% to 100%, payable annually over a four-year period. During the year ended August 31, 2000, the District approved guidelines to phase out the program.

From 1999 through 2004, 87 employees elected participation in the program. The District's liability for these special termination benefits is considered a long-term liability and is recorded in the Statement of Net Assets at the present value at June 30, 2005 of all future periodic payments to be made to the 20 former employees currently in the program.

A summary of the future payments that the District is obligated to make under this program is as follows:

Year Ended <u>June 30</u>	Total <u>Payments</u>
2006	\$ 114,874
2007	80,036
2008	<u>40,439</u>
Total	<u>\$ 235,349</u>
Present Value	<u>\$ 217,293</u>

**NOTE 10. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS**

On resignation, retirement or death of certain employees, the District pays any accrued, unused vacation leave in a lump cash payment to such employee or his/her estate. The District's liability is considered a long-term liability and is recorded in the General Long-Term Debt Account Group as other long-term debt payable.

A summary of changes in the accumulated vacation leave liability is as follows:

Balance, July 1, 2004	\$ 626,244
Additions – New Entrants and Salary Increments	246,244
Deductions – Payments to Participants	<u>(217,035)</u>
Balance, June 30, 2005	<u>\$ 655,453</u>

On retirement of an employee, the District pays to the employee lump cash payment equal to one-tenth of the employee's annual salary, if the employee has accumulated a minimum amount of unused sick leave. It is impractical to estimate the amount of future liability because of uncertainty of the number of such employees who will remain with the District until retirement. Accordingly, no liability has been recorded in the accompanying financial statements. The District's policy is to recognize the cost of compensated absences when actually paid to employees.

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**NOTE 11. PROPERTY TAXES**

The Texas Legislature in 1979 adopted a comprehensive Property Tax Code which established an appraisal district and an appraisal review board in each county in the State of Texas. Denton Central Appraisal District (DCAD) is responsible for the appraisal of property for all taxing units in Denton County, including the District. Under the terms of a contract for appraisal services, the District paid DCAD \$884,544 in fiscal year 2005 for appraising property.

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy date. The assessed value of the property tax roll upon which the levy for the 2004-05 fiscal year was based was \$5,963,219,528. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 15 % delinquent collection fees for attorney costs.

The tax rates assessed for the year ended June 30, 2005, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.50 and \$0.364 per \$100 valuation, respectively, for a total of \$1.864 per \$ 100 valuation.

Current tax collections for the year ended June 30, 2005 were 97.78% of the year-end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of June 30, 2005, property taxes receivable, net of estimated uncollectible taxes, totaled \$3,765,427 and \$920,145 for the General and Debt Service Funds, respectively.

Property taxes are recorded as receivables and deferred revenues at the time the taxes are assessed. Revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with Generally Accepted Accounting Principles have been recognized as revenue.

**NOTE 12. PENSION PLAN OBLIGATIONS**

Plan Description - The District contributes to the Teacher Retirement System of Texas (the System), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception; all risks and costs are not shared by the District, but are the liability of the State of Texas. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System operates under the authority of provisions contained primarily in Texas Government code, Title 8, Public Retirement Systems, Subtitle C, Teacher Retirement System of Texas, which is subject to amendment by the Texas Legislature. The System's annual financial report and other required disclosure information are available by writing the Teacher Retirement System of Texas, 1000 Red River, Austin, Texas 78701-2698 or by calling (800) 233-8778.

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Funding Policy - Under provisions in State law, plan members are required to contribute 6.4% of their annual covered salary and the State of Texas contributes an amount equal to 6.0% of the District's covered payroll. In certain instances the District is required to make all or a portion of the state's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. The District's employees' contributions to the System for the years ending June 30, 2003, 2004, and 2005 were \$4,718,740, \$5,012,718 and \$5,250,841, respectively, equal to the required contributions for each year. Other contributions made from federal and private grants and from the District for salaries above the statutory minimum for the years ending June 30, 2003, 2004, and 2005 were \$851,751, \$977,323 and \$1,087,762, respectively, equal to the required contributions for each year.

The amounts contributed by the State, for the years ended June 30, 2003, 2004, and 2005 were \$3,736,685, \$4,056,522 and \$4,228,960, respectively, and are reflected in the financial statements in the General Fund by respective function, in accordance with Governmental Accounting Standards Board Statement No. 24.

**NOTE 13. INTERFUND BALANCES AND TRANSFERS**

Interfund balances at June 30, 2005, were as follows:

<u>Fund</u>	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
General Fund:		
Special Revenue Fund	\$ 100,638	\$ -
Capital Projects Fund	--	26,775
Internal Service Fund	--	960,196
Enterprise Fund	9,674	--
Special Revenue Fund:		
General Fund	--	100,638
Capital Projects Fund:		
General Fund	26,775	--
Internal Service Fund:		
General Fund	960,196	--
Enterprise Fund:		
General Fund	-----	----- 9,674
 TOTAL	 <u>\$1,097,283</u>	 <u>\$1,097,283</u>

DENTON INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2005

Interfunds transfers for the year ended June 30, 2005 consisted of the following individual amounts:

<u>Fund</u>	<u>Transfers to Other Funds</u>	<u>Transfers from Other Funds</u>
General Fund:		
Internal Service Fund	\$ -	\$ 307,881
Enterprise Fund	<u>90,000</u>	<u>-</u>
	<u>90,000</u>	<u>307,881</u>
Internal Service Fund:		
General Fund	<u>307,881</u>	<u>-</u>
	<u>307,881</u>	<u>-</u>
Enterprise Fund:		
General Fund	<u>-</u>	<u>90,000</u>
 TOTAL	 <u>\$ 397,881</u>	 <u>\$ 397,881</u>

**NOTE 14. HEALTH CARE**

The District sponsors a modified self-insurance plan to provide health care benefits to staff members and their dependents. Transactions related to the plan are accounted for in the Health Insurance Fund (the "Fund"), an internal service fund of the District. Partial staff member contributions are required for personal coverage (the District contributed \$240 monthly for each employee) and total staff member contributions are required for coverage of dependents. The District obtained excess loss insurance through United Healthcare who limited annual claims paid from the Fund for the calendar year ended December 31, 2005, to \$150,000 for any individual participant and for aggregate loss of \$9,531,529.

Estimates of claims payable and of claims incurred, but not reported at June 30, 2005, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the Fund as they become due.

These liabilities are based on requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims is reported if information prior to the issuance of the financial statements indicates that it is a probable that a liability has been incurred as of the date of the financial statements and the amount of loss can be reasonably estimated.

Changes in the balances of claims liabilities in fiscal 2005 and 2004 are as follows:

	<u>Year Ended June 30, 2005</u>	<u>Year Ended June 30, 2004</u>
Unpaid claims, beginning of year	\$ 376,655	\$1,130,298
Incurred claims (including IBNR'S)	7,409,662	4,247,468
Claim payments	<u>7,239,935</u>	<u>5,001,111</u>
Unpaid claims, end of fiscal year	<u>\$ 546,382</u>	<u>\$ 376,655</u>

DENTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

**NOTE 15. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at June 30, 2005, were as follows:

	<u>Property</u> <u>Taxes</u>	<u>Other</u> <u>Governments</u>	<u>Due From</u> <u>Other Funds</u>	<u>Other</u>	<u>Total</u> <u>Receivables</u>
Governmental Activities:					
General Fund	\$4,064,019	\$1,682,605	\$110,312	\$ 20,998	\$ 5,877,934
Debt Service Fund	991,941	-	-	-	991,941
Capital Projects Fund	-	-	26,775	45,000	71,775
Special Revenue Fund	-	<u>2,585,820</u>	-	<u>46,830</u>	<u>2,632,650</u>
Total - Governmental Activities	<u>\$5,055,960</u>	<u>\$4,268,425</u>	<u>\$137,087</u>	<u>\$ 112,828</u>	<u>\$ 9,574,300</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ 370,388</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 370,388</u>
Business-type Activities:					
Enterprise Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 248</u>	<u>\$ 248</u>
Total Business-type Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 248</u>	<u>\$ 248</u>

Payables at June 30, 2005, were as follows:

	<u>Accounts</u>	<u>Salaries</u> <u>and</u> <u>Benefits</u>	<u>Due To</u> <u>Other</u> <u>Funds</u>	<u>Due To</u> <u>Other</u> <u>Governments</u>	<u>Other</u>	<u>Total</u> <u>Payables</u>
Governmental Activities:						
General Fund	\$ 694,787	\$10,551,742	\$ 986,971	\$ 275,124	\$ -	\$12,508,624
Debt Service Fund	7,814	-	-	-	-	7,814
Capital Projects Fund	12,072,177	-	-	-	-	12,072,177
Special Revenue Funds	<u>238,863</u>	<u>995,458</u>	<u>100,638</u>	<u>5,236</u>	-	<u>1,340,195</u>
Total-Governmental Activities	<u>\$13,013,641</u>	<u>\$11,547,200</u>	<u>\$1,087,609</u>	<u>\$ 280,360</u>	<u>\$ -</u>	<u>\$25,928,810</u>
Amounts not scheduled for payment during the subsequent year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Business-type Activities:						
Enterprise Fund	<u>\$ 4,227</u>	<u>\$ 197,472</u>	<u>\$ 9,674</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 211,373</u>
Total Business-type Activities	<u>\$ 4,227</u>	<u>\$ 197,472</u>	<u>\$ 9,674</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 211,373</u>

**NOTE 16. SELF-INSURED WORKERS' COMPENSATION**

The District has also established a self-funding Workers' Compensation program. Texas Association of School Boards (TASB) through an actuarial review of the self-insurance program, projected an estimated outstanding loss of \$1,966,266 as of June 30, 2005. Claims administration is provided by TASB.

DENTON INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2005

The accrued liability for Workers' Compensation self-insurance of \$1,966,266 includes incurred but not reported claims. This liability reported in the fund at June 30, 2005, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is a probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount. The liability booked was the present value of the estimate of the actuary. Aggregate stop-loss coverage for 2005 was \$600,000.

Changes in the workers' compensation claims liability amounts in fiscal 2005 and 2004 are represented below:

	<u>Year Ended</u> <u>June 30, 2005</u>	<u>Year Ended</u> <u>June 30, 2004</u>
Unpaid claims, beginning of year	\$1,894,250	\$1,379,205
Incurred claims (including IBNR'S)	530,418	1,170,373
Claim payments	<u>458,402</u>	<u>655,328</u>
Unpaid claims, end of fiscal year	<u>\$1,966,266</u>	<u>\$1,894,250</u>

**NOTE 17. DUE FROM OTHER GOVERNMENTS**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of June 30, 2005, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

<u>Fund</u>	<u>State</u> <u>Entitlements</u>	<u>Federal</u> <u>Grants</u>	<u>Total</u>
General	\$1,648,123	\$ 34,482	\$1,682,605
Special Revenue	<u>357,934</u>	<u>2,227,886</u>	<u>2,585,820</u>
Total	<u>\$2,006,057</u>	<u>\$2,262,368</u>	<u>\$4,268,425</u>

**NOTE 18. CONTINGENT LIABILITIES**

The Tax Reform Act of 1986 imposed regulations on tax-exempt bond issues. Governmental bonds issued after August 31, 1986 are subject to the rebate provisions of the Tax Reform Act of 1986. The rebate applies to earnings from bond issue proceeds investments which exceed bond issue stated interest rates. The exact amount of liability, if any, will not be known until as long as five years from the bond issuance date. During the year ended June 30, 2005, the District remitted to the Internal Revenue Service an arbitrage rebate of \$832,148 related to its Series 1999 Building/Refunding bonds. At June 30, 2005, the estimated rebate liability on other outstanding bond series was \$126,852.

**NOTE 19. LITIGATION AND CONTINGENCIES**

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

DENTON INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2005

Minimum foundation funding received from the Agency is based primarily upon information concerning average daily attendance at the District's schools which is compiled by the District and supplied to the Agency. Federal funding for Food Services under child nutrition programs is based primarily upon the number and type of meals served and on user charges as reported to the USDA. Federal and state funding received related to various grant programs are based upon periodic reports detailing reimbursable expenditures made in compliance with program guidelines to the grantor agencies.

The programs are governed by various statutory rules and regulations of the grantors. Amounts received and receivable under these various funding programs are subject to periodic audit and adjustment by the funding agencies. To the extent, if any, that the District has not complied with all the rules and regulations with respect to performance, financial or otherwise, adjustment to or return of funding monies may be required. In the opinion of the District's administration, there are no significant contingent liabilities relating to matters of compliance and, accordingly, no provision has been made in the accompanying financial statements for such contingencies.

The Denton Central Appraisal District is a defendant in various lawsuits involving the property values assigned to property located within the District's boundaries on which the District assesses property taxes. The District could be required to refund property taxes paid on values which were greater than the ultimate final assessed valuation assigned by the court. Such lawsuits could continue several years into the future.

**NOTE 20. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES**

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$89,592,234	\$ --	\$21,742,008	\$ --	\$111,334,242
Investment Income	966,947	190	255,945	2,459,825	3,682,907
Penalties, interest and other tax related income	951,195	--	231,021	--	1,182,216
Co-curricular student activities	359,079	685,835	--	--	1,044,914
Tuition and fees	900,977	--	--	--	900,977
Gifts and bequests	363,408	143,318	--	--	506,726
Other	<u>619,398</u>	<u>518,757</u>	<u>--</u>	<u>--</u>	<u>1,138,155</u>
Total	<u>\$93,753,238</u>	<u>\$1,348,100</u>	<u>\$22,228,974</u>	<u>\$2,459,825</u>	<u>\$119,790,137</u>



DENTON INDEPENDENT SCHOOL DISTRICT  
 NOTES TO THE BASIC FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE 30, 2005

**NOTE 21. DEFERRED REVENUE**

Deferred revenue at year-end consisted of the following:

	General Fund	Special Revenue Fund	Debt Service Fund	Enterprise Fund	Total
Net Tax Revenue	\$3,765,427	\$ --	\$920,145	\$ --	\$4,685,572
After-School Program	39,290	--	--	--	39,290
Lunchroom receipts	--	--	--	32,007	32,007
Pregnancy, Educating and Parenting	--	2,061	--	--	2,061
Read to Succeed	--	600	--	--	600
Advanced Placement Incentives	--	34,772	--	--	34,772
Technology Grant	--	131,234	--	--	131,234
Deaf Ed Mgmt Board	--	43,253	--	--	43,253
	<u>\$3,804,717</u>	<u>\$211,920</u>	<u>\$920,145</u>	<u>\$ 32,007</u>	<u>\$4,968,789</u>

**NOTE 22. COMMITMENTS UNDER LEASES**

Commitments under operating (noncapitalized) lease agreements for equipment provide for minimum future rental payments as of June 30, 2005, as follows:

Year Ending <u>June 30,</u>	
2006	\$350,748
2007	336,671
2008	<u>113,893</u>
 Total Minimum Rentals	 <u>\$ 801,312</u>
 Rental Expenditures in Fiscal Year 2005	 <u>\$ 281,325</u>

**NOTE 23. GENERAL FUND FEDERAL SOURCE REVENUES**

<u>Program or Source</u>	<u>CFDA Number</u>	<u>Amount</u>	<u>Total Grant or Entitlement</u>
General Fund:			
Medicaid Reimbursement	N/A	\$ 93,905	\$ 93,905
Junior ROTC	N/A	117,047	117,047
Impact Aid	84.041	42,014	42,014
Indirect Costs	N/A	<u>184,502</u>	<u>184,502</u>
Total for General Fund		<u>\$437,468</u>	<u>\$437,468</u>

**NOTE 24. EXCESS OF EXPENDITURES OVER APPROPRIATIONS BY FUNCTION**

The Texas Education Agency requires the budgets for the Governmental fund types to be filed with the Texas Education Agency. The budget should not be exceeded in any functional category under TEA requirements. Expenditures exceeded appropriations in one functional category in the General Fund, and one functional category in the Child Nutrition Fund for the year ended June 30, 2005. During the coming fiscal year, the District will continue to closely monitor its budget vs actual status and institute cutbacks or budget amendments as needed.

## COMBINING SCHEDULES

DENTON INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2005

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	205 Head Start	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ (3,038)	\$ (108,589)	\$ (208,967)	\$ (18,110)
1240	Due from Other Governments	4,727	252,250	539,209	46,635
1290	Other Receivables	-	-	-	-
1410	Deferred Expenditures	-	-	-	-
1000	Total Assets	<u>\$ 1,689</u>	<u>\$ 143,661</u>	<u>\$ 330,242</u>	<u>\$ 28,525</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
2110	Accounts Payable	\$ 350	\$ 443	\$ 25,342	\$ 16,191
2160	Accrued Wages Payable	1,339	143,218	258,557	12,334
2170	Due to Other Funds	-	-	46,343	-
2180	Due to Other Governments	-	-	-	-
2300	Deferred Revenues	-	-	-	-
2000	Total Liabilities	<u>1,689</u>	<u>143,661</u>	<u>330,242</u>	<u>28,525</u>
Fund Balances:					
Reserved For:					
3490	Other Purposes	-	-	-	-
Unreserved Designated For:					
3590	Other Purposes	-	-	-	-
Unreserved and Undesignated:					
3610	Reported in Special Revenue Funds	-	-	-	-
3630	Reported in Permanent Funds	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 1,689</u>	<u>\$ 143,661</u>	<u>\$ 330,242</u>	<u>\$ 28,525</u>

EXHIBIT H-1 (Cont'd)

224 IDEA - Part B Formula	225 IDEA - Part B Preschool	242 Summer Feeding Program	255 ESEA II,A Training and Recruiting	262 Title II, D Education Technology	263 Title III, A English Lang. Acquisition	269 Title V, Pt.A Innovative Programs	289 Teaching American History
\$ (579,488)	\$ 3,461	\$ (6,560)	\$ (12,546)	\$ (3,014)	\$ (55,330)	\$ (5,775)	\$ (9,987)
1,009,570	1,775	27,996	12,546	3,574	60,094	10,577	52,748
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 430,082</u>	<u>\$ 5,236</u>	<u>\$ 21,436</u>	<u>\$ -</u>	<u>\$ 560</u>	<u>\$ 4,764</u>	<u>\$ 4,802</u>	<u>\$ 42,761</u>
\$ 79,861	\$ -	\$ 19,552	\$ -	\$ -	\$ 4,754	\$ -	\$ 34,761
297,354	-	1,884	-	560	10	4,802	8,000
52,867	-	-	-	-	-	-	-
-	5,236	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>430,082</u>	<u>5,236</u>	<u>21,436</u>	<u>-</u>	<u>560</u>	<u>4,764</u>	<u>4,802</u>	<u>42,761</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 430,082</u>	<u>\$ 5,236</u>	<u>\$ 21,436</u>	<u>\$ -</u>	<u>\$ 560</u>	<u>\$ 4,764</u>	<u>\$ 4,802</u>	<u>\$ 42,761</u>

DENTON INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2005

Data Control Codes	309 SSA Adult Education	312 SSA - TANF Family Assistance	315 SSA IDEA, Part B Discretionary	316 SSA IDEA, Part B Deaf	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ (22,330)	\$ (8,351)	\$ (5,000)	\$ (22,293)
1240	Due from Other Governments	44,267	8,351	5,000	22,437
1290	Other Receivables	-	-	-	-
1410	Deferred Expenditures	-	-	-	-
1000	Total Assets	<u>\$ 21,937</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 144</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
2110	Accounts Payable	\$ 15,612	\$ -	\$ -	\$ 144
2160	Accrued Wages Payable	6,325	-	-	-
2170	Due to Other Funds	-	-	-	-
2180	Due to Other Governments	-	-	-	-
2300	Deferred Revenues	-	-	-	-
2000	Total Liabilities	<u>21,937</u>	<u>-</u>	<u>-</u>	<u>144</u>
Fund Balances:					
Reserved For:					
3490	Other Purposes	-	-	-	-
Unreserved Designated For:					
3590	Other Purposes	-	-	-	-
Unreserved and Undesignated:					
3610	Reported in Special Revenue Funds	-	-	-	-
3630	Reported in Permanent Funds	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 21,937</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 144</u>

EXHIBIT H-1 (Cont'd)

317 SSA - IDEA, B Preschool Deaf	331 SSA Vocational Ed Basic Grant	340 SSA - IDEA C Deaf - Early Intervention	385 Visually Impaired	394 Pregnancy, Education and Parenting	397 Advanced Placement Incentives	401 Optional Extended Year Program	404 Accelerated Reading
\$ (3,407)	\$ (109,325)	\$ (1,606)	\$ -	\$ 2,061	\$ 34,772	\$ -	\$ (43,659)
3,407	121,117	1,606	-	-	-	36,040	149,953
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 11,792</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,061</u>	<u>\$ 34,772</u>	<u>\$ 36,040</u>	<u>\$ 106,294</u>
\$ -	\$ 5,514	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,896
-	4,850	-	-	-	-	36,040	98,398
-	1,428	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	2,061	34,772	-	-
<u>-</u>	<u>11,792</u>	<u>-</u>	<u>-</u>	<u>2,061</u>	<u>34,772</u>	<u>36,040</u>	<u>106,294</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 11,792</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,061</u>	<u>\$ 34,772</u>	<u>\$ 36,040</u>	<u>\$ 106,294</u>

DENTON INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2005

Data Control Codes	409 Texas High School Completion	411 Technology Allotment	414 Texas Reading Initiative	416 State Head Start	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ (35,824)	\$ 97,454	\$ -	\$ -
1240	Due from Other Governments	43,595	-	-	-
1290	Other Receivables	-	-	-	-
1410	Deferred Expenditures	-	34,464	-	-
1000	Total Assets	<u>\$ 7,771</u>	<u>\$ 131,918</u>	<u>\$ -</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
2110	Accounts Payable	\$ -	\$ 684	\$ -	\$ -
2160	Accrued Wages Payable	7,771	-	-	-
2170	Due to Other Funds	-	-	-	-
2180	Due to Other Governments	-	-	-	-
2300	Deferred Revenues	-	131,234	-	-
2000	Total Liabilities	<u>7,771</u>	<u>131,918</u>	<u>-</u>	<u>-</u>
Fund Balances:					
Reserved For:					
3490	Other Purposes	-	-	-	-
Unreserved Designated For:					
3590	Other Purposes	-	-	-	-
Unreserved and Undesignated:					
3610	Reported in Special Revenue Funds	-	-	-	-
3630	Reported in Permanent Funds	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 7,771</u>	<u>\$ 131,918</u>	<u>\$ -</u>	<u>\$ -</u>

EXHIBIT H-1 (Cont'd)

418 Employee Health Insurance	429 Read to Succeed	431 SSA - Adult Basic Education	432 SSA - TANF Temporary Assistance	435 SSA Regional Day School - Deaf	446 Deaf Educ Management Board	461 Campus Activity Funds	490 Gifts and Bequests
\$ (2,834)	\$ 600	\$ (8,181)	\$ (1,530)	\$ (63,392)	\$ 104,914	\$ 376,327	\$ 98,541
2,834	-	8,269	2,140	115,103	-	-	-
-	-	-	-	-	-	46,830	-
-	-	-	-	-	-	724	-
<u>\$ -</u>	<u>\$ 600</u>	<u>\$ 88</u>	<u>\$ 610</u>	<u>\$ 51,711</u>	<u>\$ 104,914</u>	<u>\$ 423,881</u>	<u>\$ 98,541</u>
\$ -	\$ -	\$ 88	\$ -	\$ 333	\$ 273	\$ 27,065	\$ -
-	-	-	610	51,378	61,388	640	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	600	-	-	-	43,253	-	-
<u>-</u>	<u>600</u>	<u>88</u>	<u>610</u>	<u>51,711</u>	<u>104,914</u>	<u>27,705</u>	<u>-</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	98,541
-	-	-	-	-	-	396,176	-
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>396,176</u>	<u>98,541</u>
<u>\$ -</u>	<u>\$ 600</u>	<u>\$ 88</u>	<u>\$ 610</u>	<u>\$ 51,711</u>	<u>\$ 104,914</u>	<u>\$ 423,881</u>	<u>\$ 98,541</u>



DENTON INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2005

Data Control Codes	Total Nonmajor Special Revenue Funds	479 Permanent Fund	Total Nonmajor Governmental Funds	
<b>ASSETS</b>				
1110	Cash and Cash Equivalents	\$ (621,006)	\$ 12,149	\$ (608,857)
1240	Due from Other Governments	2,585,820	-	2,585,820
1290	Other Receivables	46,830	-	46,830
1410	Deferred Expenditures	35,188	-	35,188
1000	Total Assets	<u>\$ 2,046,832</u>	<u>\$ 12,149</u>	<u>\$ 2,058,981</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
2110	Accounts Payable	\$ 238,863	-	\$ 238,863
2160	Accrued Wages Payable	995,458	-	995,458
2170	Due to Other Funds	100,638	-	100,638
2180	Due to Other Governments	5,236	-	5,236
2300	Deferred Revenues	211,920	-	211,920
2000	Total Liabilities	<u>1,552,115</u>	<u>-</u>	<u>1,552,115</u>
Fund Balances:				
Reserved For:				
3490	Other Purposes	-	1,000	1,000
Unreserved Designated For:				
3590	Other Purposes	98,541	-	98,541
Unreserved and Undesignated:				
3610	Reported in Special Revenue Funds	396,176	-	396,176
3630	Reported in Permanent Funds	-	11,149	11,149
3000	Total Fund Balances	<u>494,717</u>	<u>12,149</u>	<u>506,866</u>
4000	Total Liabilities and Fund Balances	<u>\$ 2,046,832</u>	<u>\$ 12,149</u>	<u>\$ 2,058,981</u>

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DENTON INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2005

Data Control Codes	204 ESEA Title IV Safe & Drug Free Schools	205 Head Start	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	<u>84,639</u>	<u>1,129,642</u>	<u>2,284,447</u>	<u>106,593</u>
5020 Total Revenues	<u>84,639</u>	<u>1,129,642</u>	<u>2,284,447</u>	<u>106,593</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	-	807,238	1,901,978	56,505
0012 Instructional Resources & Media Services	-	-	-	-
0013 Curriculum & Instructional Staff Development	-	7,960	41,730	-
0021 Instructional Leadership	-	13,121	74,404	50,088
0023 School Leadership	-	70,662	32,112	-
0031 Guidance, Counseling & Evaluation Services	84,639	6,106	46,127	-
0032 Social Work Services	-	158,331	4,001	-
0033 Health Services	-	39,605	-	-
0034 Student (Pupil) Transportation	-	-	-	-
0035 Food Services	-	-	-	-
0036 Cocurricular/Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	-
0051 Plant Maintenance and Operations	-	-	71	-
0053 Data Processing Services	-	-	-	-
0061 Community Services	-	26,619	184,024	-
6030 Total Expenditures	<u>84,639</u>	<u>1,129,642</u>	<u>2,284,447</u>	<u>106,593</u>
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - July 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

224 IDEA - Part B Formula	225 IDEA - Part B Preschool	242 Summer Feeding Program	255 ESEA II,A Training and Recruiting	262 Title II, D Education Technology	263 Title III, A English Lang. Acquisition	269 Title V, Pt.A Innovative Programs	289 Teaching American History
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
<u>2,642,511</u>	<u>82,016</u>	<u>50,836</u>	<u>618,939</u>	<u>58,314</u>	<u>289,988</u>	<u>70,473</u>	<u>87,729</u>
<u>2,642,511</u>	<u>82,016</u>	<u>50,836</u>	<u>618,939</u>	<u>58,314</u>	<u>289,988</u>	<u>70,473</u>	<u>87,729</u>
2,189,485	79,634	-	-	2,467	230,952	5,488	-
-	-	-	-	-	-	-	-
36,785	2,382	-	614,888	55,847	19,409	64,985	87,729
1,534	-	-	1,935	-	1,635	-	-
1,438	-	-	2,116	-	-	-	-
413,269	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	50,836	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	37,992	-	-
<u>2,642,511</u>	<u>82,016</u>	<u>50,836</u>	<u>618,939</u>	<u>58,314</u>	<u>289,988</u>	<u>70,473</u>	<u>87,729</u>
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

DENTON INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2005

Data Control Codes	309 SSA Adult Education	312 SSA - TANF Family Assistance	315 SSA IDEA, Part B Discretionary	316 SSA IDEA, Part B Deaf
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	<u>339,920</u>	<u>8,247</u>	<u>5,000</u>	<u>39,534</u>
5020 Total Revenues	<u>339,920</u>	<u>8,247</u>	<u>5,000</u>	<u>39,534</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	313,936	8,247	5,000	39,479
0012 Instructional Resources & Media Services	-	-	-	-
0013 Curriculum & Instructional Staff Development	10,984	-	-	-
0021 Instructional Leadership	5,900	-	-	-
0023 School Leadership	-	-	-	-
0031 Guidance, Counseling & Evaluation Services	-	-	-	55
0032 Social Work Services	-	-	-	-
0033 Health Services	-	-	-	-
0034 Student (Pupil) Transportation	-	-	-	-
0035 Food Services	-	-	-	-
0036 Cocurricular/Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	-
0051 Plant Maintenance and Operations	3,995	-	-	-
0053 Data Processing Services	-	-	-	-
0061 Community Services	<u>5,105</u>	-	-	-
6030 Total Expenditures	<u>339,920</u>	<u>8,247</u>	<u>5,000</u>	<u>39,534</u>
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - July 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

317 SSA - IDEA, B Preschool Deaf	331 SSA Vocational Ed Basic Grant	340 SSA - IDEA C Deaf - Early Intervention	385 Visually Impaired	394 Pregnancy, Education and Parenting	397 Advanced Placement Incentives	401 Optional Extended Year Program	404 Accelerated Reading
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	11,549	60,812	9,634	38,780	321,460
<u>3,330</u>	<u>206,714</u>	<u>1,606</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>3,330</u>	<u>206,714</u>	<u>1,606</u>	<u>11,549</u>	<u>60,812</u>	<u>9,634</u>	<u>38,780</u>	<u>321,460</u>
3,330	134,375	1,606	11,549	-	6,137	31,620	205,898
-	-	-	-	-	-	-	-
-	26,457	-	-	-	3,497	-	91,895
-	3,370	-	-	-	-	-	675
-	-	-	-	-	-	6,565	17,097
-	42,512	-	-	-	-	273	-
-	-	-	-	60,812	-	-	-
-	-	-	-	-	-	322	5,895
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>3,330</u>	<u>206,714</u>	<u>1,606</u>	<u>11,549</u>	<u>60,812</u>	<u>9,634</u>	<u>38,780</u>	<u>321,460</u>
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

DENTON INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2005

Data Control Codes	409 Texas High School Completion	411 Technology Allotment	414 Texas Reading Initiative	416 State Head Start	
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800	State Program Revenues	138,802	346,025	3,130	733
5900	Federal Program Revenues	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
5020	Total Revenues	<u>138,802</u>	<u>346,025</u>	<u>3,130</u>	<u>733</u>
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	131,474	117,603	3,130	-
0012	Instructional Resources & Media Services	-	-	-	-
0013	Curriculum & Instructional Staff Development	-	47,115	-	733
0021	Instructional Leadership	7,328	-	-	-
0023	School Leadership	-	-	-	-
0031	Guidance, Counseling & Evaluation Services	-	-	-	-
0032	Social Work Services	-	-	-	-
0033	Health Services	-	-	-	-
0034	Student (Pupil) Transportation	-	-	-	-
0035	Food Services	-	-	-	-
0036	Cocurricular/Extracurricular Activities	-	-	-	-
0041	General Administration	-	-	-	-
0051	Plant Maintenance and Operations	-	181,307	-	-
0053	Data Processing Services	-	-	-	-
0061	Community Services	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
6030	Total Expenditures	<u>138,802</u>	<u>346,025</u>	<u>3,130</u>	<u>733</u>
1200	Net Change in Fund Balance	-	-	-	-
0100	Fund Balance - July 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000	Fund Balance - June 30 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

418 Employee Health Insurance	429 Read to Succeed	431 SSA - Adult Basic Education	432 SSA - TANF Temporary Assistance	435 SSA Regional Day School - Deaf	446 Deaf Educ Management Board	461 Campus Activity Funds	490 Gifts and Bequests
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 499,227	\$ 746,494	\$ 102,379
1,066,682	-	45,929	12,728	401,009	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>1,066,682</u>	<u>-</u>	<u>45,929</u>	<u>12,728</u>	<u>401,009</u>	<u>499,227</u>	<u>746,494</u>	<u>102,379</u>
696,369	-	32,790	12,728	329,857	498,358	491,138	39,612
22,002	-	-	-	-	-	975	4,723
9,855	-	7,625	-	5,512	444	16,711	13,201
11,989	-	5,499	-	-	-	2,494	-
34,695	-	-	-	-	-	40,523	756
36,669	-	-	-	65,640	425	586	446
4,834	-	-	-	-	-	-	606
11,043	-	-	-	-	-	56	2,000
40,905	-	-	-	-	-	781	-
47,498	-	-	-	-	-	-	-
2,063	-	-	-	-	-	73,655	2,200
20,376	-	-	-	-	-	1,282	4,734
103,507	-	15	-	-	-	786	-
22,210	-	-	-	-	-	-	-
2,667	-	-	-	-	-	-	1,997
<u>1,066,682</u>	<u>-</u>	<u>45,929</u>	<u>12,728</u>	<u>401,009</u>	<u>499,227</u>	<u>628,987</u>	<u>70,275</u>
-	-	-	-	-	-	117,507	32,104
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>278,669</u>	<u>66,437</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 396,176</u>	<u>\$ 98,541</u>



DENTON INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2005

Data Control Codes	Total Nonmajor Special Revenue Funds	479 Permanent Fund	Total Nonmajor Governmental Funds
<b>REVENUES:</b>			
5700 Total Local and Intermediate Sources	\$ 1,348,100	\$ 276	\$ 1,348,376
5800 State Program Revenues	2,457,273	-	2,457,273
5900 Federal Program Revenues	<u>8,110,478</u>	-	<u>8,110,478</u>
5020 Total Revenues	<u>11,915,851</u>	<u>276</u>	<u>11,916,127</u>
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	8,387,983	-	8,387,983
0012 Instructional Resources & Media Services	27,700	-	27,700
0013 Curriculum & Instructional Staff Development	1,165,744	-	1,165,744
0021 Instructional Leadership	179,972	-	179,972
0023 School Leadership	205,964	-	205,964
0031 Guidance, Counseling & Evaluation Services	696,747	-	696,747
0032 Social Work Services	228,584	-	228,584
0033 Health Services	58,921	-	58,921
0034 Student (Pupil) Transportation	41,686	-	41,686
0035 Food Services	98,334	-	98,334
0036 Cocurricular/Extracurricular Activities	77,918	-	77,918
0041 General Administration	26,392	-	26,392
0051 Plant Maintenance and Operations	289,681	-	289,681
0053 Data Processing Services	22,210	-	22,210
0061 Community Services	<u>258,404</u>	-	<u>258,404</u>
6030 Total Expenditures	<u>11,766,240</u>	-	<u>11,766,240</u>
1200 Net Change in Fund Balance	149,611	276	149,887
0100 Fund Balance - July 1 (Beginning)	<u>345,106</u>	<u>11,873</u>	<u>356,979</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ 494,717</u>	<u>\$ 12,149</u>	<u>\$ 506,866</u>

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DENTON INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF NET ASSETS  
 INTERNAL SERVICE FUNDS  
 JUNE 30, 2005

	752	753	771	Total
	Print Shop	Workers Compensation	Health Insurance	Internal Service Funds
<b>ASSETS</b>				
Current Assets:				
Cash and Cash Equivalents	\$ 173,072	\$ 2,786,110	\$ 6,559,860	\$ 9,519,042
Due from Other Funds	-	3,842	956,354	960,196
Other Receivables	60	-	-	60
Inventories	4,354	-	-	4,354
Total Current Assets	<u>177,486</u>	<u>2,789,952</u>	<u>7,516,214</u>	<u>10,483,652</u>
Noncurrent Assets:				
Capital Assets:				
Furniture and Equipment	22,224	3,448	-	25,672
Depreciation on Furniture and Equipment	(13,162)	(2,955)	-	(16,117)
Total Noncurrent Assets	<u>9,062</u>	<u>493</u>	<u>-</u>	<u>9,555</u>
Total Assets	<u>186,548</u>	<u>2,790,445</u>	<u>7,516,214</u>	<u>10,493,207</u>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts Payable	6,709	15,436	143,080	165,225
Accrued Expenses	-	1,966,266	546,382	2,512,648
Total Liabilities	<u>6,709</u>	<u>1,981,702</u>	<u>689,462</u>	<u>2,677,873</u>
<b>NET ASSETS</b>				
Investments in Capital Assets, Net of Debt	9,062	493	-	9,555
Unrestricted Net Assets	<u>170,777</u>	<u>808,250</u>	<u>6,826,752</u>	<u>7,805,779</u>
Total Net Assets	<u>\$ 179,839</u>	<u>\$ 808,743</u>	<u>\$ 6,826,752</u>	<u>\$ 7,815,334</u>

DENTON INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 INTERNAL SERVICE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2005

	752 Print Shop	753 Workers Compensation	771 Health Insurance	Total Internal Service Funds
<b>OPERATING REVENUES:</b>				
Local and Intermediate Sources	<u>\$ 315,980</u>	<u>\$ 1,312,757</u>	<u>\$ 11,689,049</u>	<u>\$ 13,317,786</u>
Total Operating Revenues	<u>315,980</u>	<u>1,312,757</u>	<u>11,689,049</u>	<u>13,317,786</u>
<b>OPERATING EXPENSES:</b>				
Payroll Costs	73,784	52,480	139,790	266,054
Professional and Contracted Services	113,077	33,909	1,021,830	1,168,816
Supplies and Materials	76,985	-	6,589	83,574
Other Operating Costs	<u>2,583</u>	<u>604,080</u>	<u>8,479,773</u>	<u>9,086,436</u>
Total Operating Expenses	<u>266,429</u>	<u>690,469</u>	<u>9,647,982</u>	<u>10,604,880</u>
Operating Income	<u>49,551</u>	<u>622,288</u>	<u>2,041,067</u>	<u>2,712,906</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>				
Earnings from Temporary Deposits & Investments	<u>-</u>	<u>35,022</u>	<u>126,643</u>	<u>161,665</u>
Total Nonoperating Revenue (Expenses)	<u>-</u>	<u>35,022</u>	<u>126,643</u>	<u>161,665</u>
Income Before Transfers	49,551	657,310	2,167,710	2,874,571
Transfers Out	<u>-</u>	<u>(307,881)</u>	<u>-</u>	<u>(307,881)</u>
Change in Net Assets	49,551	349,429	2,167,710	2,566,690
Total Net Assets - July 1 (Beginning)	<u>130,288</u>	<u>459,314</u>	<u>4,659,042</u>	<u>5,248,644</u>
Total Net Assets - June 30 (Ending)	<u><u>\$ 179,839</u></u>	<u><u>\$ 808,743</u></u>	<u><u>\$ 6,826,752</u></u>	<u><u>\$ 7,815,334</u></u>

DENTON INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF CASH FLOWS  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	752	753	771	Total
	Print Shop	Workers Compensation	Health Insurance	Internal Service Funds
<b>Cash Flows from Operating Activities:</b>				
Cash Received from District	\$ -	\$ 1,316,219	\$ 6,694,599	\$ 8,010,818
Cash Received from Charges and Fees	315,920	-	-	315,920
Cash Received from Employees	-	-	4,103,140	4,103,140
Cash Payments for Payroll Costs	(74,136)	(52,480)	(139,791)	(266,407)
Cash Payments for Purchased Services	(113,077)	(37,894)	(1,021,830)	(1,172,801)
Cash Payments for Supplies and Materials	(73,571)	-	(6,589)	(80,160)
Cash Payments for Other Expenses	(100)	(58,342)	(1,193,836)	(1,252,278)
Cash Payments for Claims	-	(458,402)	(7,239,935)	(7,698,337)
Net Cash Provided by Operating Activities	<u>55,036</u>	<u>709,101</u>	<u>1,195,758</u>	<u>1,959,895</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>				
Operating Transfer In (Out)	-	(307,881)	-	(307,881)
<b>Cash Flows from Capital &amp; Related Financing Activities:</b>				
Acquisition of Capital Assets	(6,504)	-	-	(6,504)
<b>Cash Flows from Investing Activities:</b>				
Interest and Dividends on Investments	-	35,022	126,643	161,665
Net Increase in Cash and Cash Equivalents	48,532	436,242	1,322,401	1,807,175
Cash and Cash Equivalents at Beginning of the Year:	<u>124,540</u>	<u>2,349,868</u>	<u>5,237,459</u>	<u>7,711,867</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 173,072</u>	<u>\$ 2,786,110</u>	<u>\$ 6,559,860</u>	<u>\$ 9,519,042</u>
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</b>				
Operating Income:	\$ 49,551	\$ 622,288	\$ 2,041,067	\$ 2,712,906
<b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:</b>				
Depreciation	2,483	492	-	2,975
<b>Effect of Increases and Decreases in Current Assets and Liabilities:</b>				
(Increase) decrease in Other Receivables	(60)	14,828	-	14,768
(Increase) decrease in Inventories	(212)	-	-	(212)
(Increase) decrease in Deferred Expenditures	-	-	225	225
(Increase) decrease in Due from Other Funds	-	3,462	(891,311)	(887,849)
Increase (decrease) in Accounts Payable	3,626	(3,985)	(123,950)	(124,309)
Increase (decrease) in Accrued Expenses	(352)	72,016	169,727	241,391
Net Cash Provided by Operating Activities	<u>\$ 55,036</u>	<u>\$ 709,101</u>	<u>\$ 1,195,758</u>	<u>\$ 1,959,895</u>

DENTON INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF NET ASSETS  
 NONMAJOR ENTERPRISE FUNDS  
 JUNE 30, 2005

	701 National Breakfast and Lunch Program	702 Stadium Concessions	Total Nonmajor Enterprise Funds
<b>ASSETS</b>			
Current Assets:			
Cash and Cash Equivalents	\$ 1,094,994	\$ 27,865	\$ 1,122,859
Other Receivables	-	248	248
Inventories	21,680	-	21,680
Total Current Assets	<u>1,116,674</u>	<u>28,113</u>	<u>1,144,787</u>
Noncurrent Assets:			
Capital Assets:			
Furniture and Equipment	3,215,526	55,368	3,270,894
Depreciation on Furniture and Equipment	(2,310,109)	(6,742)	(2,316,851)
Total Noncurrent Assets	<u>905,417</u>	<u>48,626</u>	<u>954,043</u>
Total Assets	<u>2,022,091</u>	<u>76,739</u>	<u>2,098,830</u>
<b>LIABILITIES</b>			
Current Liabilities:			
Accounts Payable	4,209	18	4,227
Accrued Wages Payable	197,472	-	197,472
Due to Other Funds	9,674	-	9,674
Deferred Revenues	32,007	-	32,007
Total Liabilities	<u>243,362</u>	<u>18</u>	<u>243,380</u>
<b>NET ASSETS</b>			
Investments in Capital Assets, Net of Debt	905,417	48,626	954,043
Unrestricted Net Assets	873,312	28,095	901,407
Total Net Assets	<u>\$ 1,778,729</u>	<u>\$ 76,721</u>	<u>\$ 1,855,450</u>

DENTON INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS  
 NONMAJOR ENTERPRISE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2005

	701 National Breakfast and Lunch Program	702 Stadium Concessions	Total Nonmajor Enterprise Funds
<b>OPERATING REVENUES:</b>			
Local and Intermediate Sources	\$ 2,211,516	\$ 89,349	\$ 2,300,865
State Program Revenues	<u>42,965</u>	<u>-</u>	<u>42,965</u>
Total Operating Revenues	<u>2,254,481</u>	<u>89,349</u>	<u>2,343,830</u>
<b>OPERATING EXPENSES:</b>			
Payroll Costs	2,103,873	28,884	2,132,757
Professional and Contracted Services	176,035	2,458	178,493
Supplies and Materials	2,674,600	64,544	2,739,144
Other Operating Costs	<u>210,727</u>	<u>6,742</u>	<u>217,469</u>
Total Operating Expenses	<u>5,165,235</u>	<u>102,628</u>	<u>5,267,863</u>
Operating Income (Loss)	<u>(2,910,754)</u>	<u>(13,279)</u>	<u>(2,924,033)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>			
National School Breakfast Program	510,659	-	510,659
National School Lunch Program	2,141,733	-	2,141,733
Donated Commodities (USDA)	204,608	-	204,608
Earnings from Temporary Deposits & Investments	<u>24,856</u>	<u>-</u>	<u>24,856</u>
Total Nonoperating Revenue (Expenses)	<u>2,881,856</u>	<u>-</u>	<u>2,881,856</u>
Income (Loss) Before Transfers	(28,898)	(13,279)	(42,177)
Transfer In	<u>-</u>	<u>90,000</u>	<u>90,000</u>
Change in Net Assets	(28,898)	76,721	47,823
Total Net Assets - July 1 (Beginning)	<u>1,807,627</u>	<u>-</u>	<u>1,807,627</u>
Total Net Assets - June 30 (Ending)	<u>\$ 1,778,729</u>	<u>\$ 76,721</u>	<u>\$ 1,855,450</u>

DENTON INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF CASH FLOWS  
NONMAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED JUNE 30, 2005

	701 National Breakfast and Lunch Program	702 Stadium Concessions	Total Nonmajor Enterprise Funds
Cash Flows from Operating Activities:			
Cash Received from Charges and Fees	\$ 2,263,345	\$ 89,101	\$ 2,352,446
Cash Payments for Payroll Costs	(2,090,932)	(28,884)	(2,119,816)
Cash Payments for Purchased Services	(176,035)	(2,458)	(178,493)
Cash Payments for Supplies and Materials	(2,655,355)	(64,526)	(2,719,881)
Cash Payments for Other Expenses	(14,300)	-	(14,300)
Net Cash Provided by (Used for) Operating Activities	<u>(2,673,277)</u>	<u>(6,767)</u>	<u>(2,680,044)</u>
Cash Flows from Non-Capital Financing Activities:			
Cash Received from Federal Programs	2,857,000	-	2,857,000
Operating Transfer In (Out)	-	90,000	90,000
Net Cash Provided by Non-Capital Financing Activities	<u>2,857,000</u>	<u>90,000</u>	<u>2,947,000</u>
Cash Flows from Capital & Related Financing Activities:			
Acquisition of Capital Assets	(49,189)	(55,368)	(104,557)
Cash Flows from Investing Activities:			
Interest and Dividends on Investments	24,856	-	24,856
Net Increase in Cash and Cash Equivalents	159,390	27,865	187,255
Cash and Cash Equivalents at Beginning of the Year:	<u>935,604</u>	<u>-</u>	<u>935,604</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 1,094,994</u>	<u>\$ 27,865</u>	<u>\$ 1,122,859</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:			
Operating Income (Loss):	\$ (2,910,754)	\$ (13,279)	\$ (2,924,033)
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used For) Operating Activities:			
Depreciation	196,427	6,742	203,169
Effect of Increases and Decreases in Current Assets and Liabilities:			
(Increase) decrease in Other Receivables	-	(248)	(248)
(Increase) decrease in Inventories	25,078	-	25,078
(Increase) decrease in Due from Other Funds	3,218	-	3,218
Increase (decrease) in Accounts Payable	(6,137)	18	(6,119)
Increase (decrease) in Accrued Wages Payable	12,941	-	12,941
Increase (decrease) in Due to Other Funds	304	-	304
Increase (decrease) in Deferred Revenues	5,646	-	5,646
Net Cash Provided by (Used for) Operating Activities	<u>\$ (2,673,277)</u>	<u>\$ (6,767)</u>	<u>\$ (2,680,044)</u>



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REQUIRED T.E.A. SCHEDULES

DENTON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED JUNE 30, 2005

Last 10 Years	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
1996 and prior years	Various	Various	\$ 2,429,839,170
1997	1.29490	0.36580	2,614,531,222
1998	1.38500	0.39000	2,720,037,296
1999	1.48000	0.37000	2,919,034,703
2000	1.36600	0.33400	3,316,850,647
2001	1.48000	0.36400	3,926,506,291
2002	1.50000	0.35400	4,381,351,996
2003	1.50000	0.36400	4,834,579,560
2004	1.50000	0.36400	5,373,515,343
2005 (School year under audit)	1.50000	0.36400	5,963,219,528
1000 TOTALS			

	(10) Beginning Balance 7/1/2004	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 6/30/2005
\$	151,846 \$	- \$	21,893 \$	5,826 \$	(41,159) \$	165,286
	37,705	-	8,474	2,394	(9,029)	35,866
	73,195	-	11,865	3,341	(24,384)	82,373
	61,088	-	46,505	11,626	(83,026)	85,983
	78,182	-	56,780	13,883	(91,984)	99,503
	332,916	-	82,512	20,294	87,276	142,834
	553,221	-	160,434	37,862	(87,259)	442,184
	832,621	-	288,023	69,894	(159,997)	634,701
	2,573,695	-	1,448,457	351,492	(131,759)	905,505
	-	111,154,412	87,467,291	21,225,396	-	2,461,725
\$	<u>4,694,469 \$</u>	<u>111,154,412 \$</u>	<u>89,592,234 \$</u>	<u>21,742,008 \$</u>	<u>(541,321) \$</u>	<u>5,055,960</u>

DENTON INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2006-2007  
 GENERAL AND SPECIAL REVENUE FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2005

**FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION**

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	\$ -	\$ -	\$ 285,147	\$ 1,634,697	\$ -	\$ 131,192	\$ 2,051,036
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	254,730	-	-	254,730
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	166,581	-	-	-	166,581
6212	Audit Services	-	-	-	28,850	-	-	28,850
6213	Tax Appraisal and Collection	-	941,441	-	-	-	-	941,441
621X	Other Professional Services	16,847	-	115	10,886	-	-	27,848
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	-	-	6,404	6,404
6240	Contr. Maint. and Repair	-	-	-	-	4,634	-	4,634
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	2,659	11,440	-	-	14,099
6290	Miscellaneous Contr.	-	-	4,388	67,693	-	405	72,486
6320	Textbooks and Reading	399	-	1,939	9,123	-	-	11,461
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	209	-	3,486	98,168	-	50,252	152,115
6410	Travel, Subsistence, Stipends	31,940	-	7,613	57,261	-	834	97,648
6420	Ins. and Bonding Costs	-	-	-	956	-	-	956
6430	Election Costs	32,904	-	-	-	-	-	32,904
6490	Miscellaneous Operating	9,237	-	20,590	57,413	-	4,102	91,342
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	7,112	7,112
6000	TOTAL	\$ 91,536	\$ 941,441	\$ 492,518	\$ 2,231,217	\$ 4,634	\$ 200,301	\$ 3,961,647

Total expenditures/expenses for General and Special Revenue Funds: and Enterprise (9) \$ 126,185,540  
 LESS: Deductions of Unallowable Costs

## FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 1,045,997
Total Debt & Lease(6500)	(11)	283,836
Plant Maintenance (Function 51, 6100-6400)	(12)	14,195,013
Food (Function 35, 6341 and 6499)	(13)	2,251,900
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		2,231,217

SubTotal:

20,007,963

Net Allowed Direct Cost

\$ 106,177,577

## CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 270,182,042
Historical Cost of Building over 50 years old	(16)	\$ 75,000
Amount of Federal Money in Building Cost (Net of #16)	(17)	\$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18)	\$ 16,476,536
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 4,404,531
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ 1,397,546

(8) NOTE A: \$245,378 in Function 53 expenditures are included in this report on administrative costs.

DENTON INDEPENDENT SCHOOL DISTRICT  
 FUNDBALANCE AND CASH FLOW CALCULATION WORKSHEET  
 FOR THE YEAR ENDED JUNE 30, 2005

**UNAUDITED**

1	Total General Fund Balance as of 6/30/05 (Exhibit C-1 object 3000 for the General Fund Only)	\$	34,153,001
2	Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only)	\$	581,116
3	Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund Only)		310,311
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)		33,011,777
5	Estimate of one month's average cash disbursements during the regular school session (9/1/05-5/31/06).		10,071,276
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.		-
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>43,974,480</u>
11	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)	\$	<u><u>(9,821,479)</u></u>

DENTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
FOR THE YEAR ENDED JUNE 30, 2005

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 2,411,889	\$ 2,208,538	\$ 2,211,516	\$ 2,978
5800	State Program Revenues	41,764	42,965	42,965	-
5020	Total Revenues	2,453,653	2,251,503	2,254,481	2,978
<b>EXPENDITURES:</b>					
0035	Food Services	4,506,531	4,910,862	5,049,145	(138,283)
0051	Plant Maintenance and Operations	129,800	128,183	116,090	12,093
6030	Total Expenditures	4,636,331	5,039,045	5,165,235	(126,190)
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,182,678)	(2,787,542)	(2,910,754)	(123,212)
<b>OTHER FINANCING SOURCES (USES):</b>					
8940	National School Breakfast Program	394,407	510,659	510,659	-
7953	National School Lunch Program	1,788,271	2,141,703	2,141,733	30
7954	Donated Commodities (USDA)	-	155,922	204,608	48,686
7955	Earnings from Temporary Deposits	-	21,182	24,856	3,674
7080	Total Other Financing Sources (Uses)	2,182,678	2,829,466	2,881,856	52,390
1200	Change in Net Assets	-	41,924	(28,898)	(70,822)
0100	Total Net Assets - July 1 (Beginning)	1,807,627	1,807,627	1,807,627	-
3000	Total Net Assets - June 30 (Ending)	\$ 1,807,627	\$ 1,849,551	\$ 1,778,729	\$ (70,822)

DENTON INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - DEBT SERVICE FUND  
FOR THE YEAR ENDED JUNE 30, 2005

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 22,268,940	\$ 22,348,511	\$ 22,228,974	\$ (119,537)
5800	State Program Revenues	579,992	859,629	403,849	(455,780)
5020	Total Revenues	<u>22,848,932</u>	<u>23,208,140</u>	<u>22,632,823</u>	<u>(575,317)</u>
<b>EXPENDITURES:</b>					
0071	Debt Service - Principal on long-term debt	9,396,602	7,096,602	7,096,602	-
0072	Debt Service - Interest on long-term debt	13,440,872	13,440,872	13,374,518	66,354
0073	Debt Service - Bond Issuance Cost and Fees	107,136	107,136	140,502	(33,366)
6030	Total Expenditures	<u>22,944,610</u>	<u>20,644,610</u>	<u>20,611,622</u>	<u>32,988</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(95,678)</u>	<u>2,563,530</u>	<u>2,021,201</u>	<u>(542,329)</u>
<b>OTHER FINANCING SOURCES (USES):</b>					
7911	Capital-related Debt Issued (Regular Bonds)	-	58,558,285	58,818,545	260,260
7080	Total Other Financing Sources (Uses)	<u>-</u>	<u>58,558,285</u>	<u>58,818,545</u>	<u>260,260</u>
1200	Net Change in Fund Balances	(95,678)	61,121,815	60,839,746	(282,069)
0100	Fund Balance - July 1 (Beginning)	<u>12,671,372</u>	<u>12,671,372</u>	<u>12,671,372</u>	<u>-</u>
3000	Fund Balance - June 30 (Ending)	<u>\$ 12,575,694</u>	<u>\$ 73,793,187</u>	<u>\$ 73,511,118</u>	<u>\$ (282,069)</u>



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FEDERAL AWARDS SECTION

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

Board of Trustees  
Denton Independent School District  
Denton, Texas

Members of the Board of Trustees:

We have audited the financial statements of Denton Independent School District (the "District") as of and for the year ended June 30, 2005, and have issued our report thereon dated September 23, 2005. 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.

Compliance

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* and is disclosed as finding 2005-1 in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, the Texas Education Agency, and appropriate federal agencies and is not intended to be used and should not be used by anyone other than these specified parties.

*"Authorized signatures available on the reports filed with TEA"*

Hankins, Eastup, Deaton, Tonn & Seay  
A Professional Corporation  
Certified Public Accountants

September 23, 2005

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

Board of Trustees  
Denton Independent School District  
Denton, Texas

Members of the Board of Trustees:

**Compliance**

We have audited the compliance of Denton Independent School District (the “District”) with the types of compliance requirements described in the *U.S. Office of Management and budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. The District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of finding and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the District’s management. Our responsibility is to express an opinion on the District’s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District’s compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

**Internal Control Over Compliance**

The management of the District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District’s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be a material weakness.

This report is intended for the information of the audit committee, management and 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.

*“Authorized signatures available on the reports filed with TEA”*

Hankins, Eastup, Deaton, Tonn & Seay  
A Professional Corporation  
Certified Public Accountants

September 23, 2005

DENTON INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
 FOR THE YEAR ENDED JUNE 30, 2005

I. Summary of Auditor's Results

1. Type of auditor's report issued on the financial statements: Unqualified.
2. No internal control findings required to be reported in this schedule were disclosed in the audit of the financial statements.
3. Noncompliance which is material to the financial statements: None
4. No internal control findings required to be reported in this schedule were disclosed in the audit of the major programs.
5. Type of auditor's report on compliance for major programs: Unqualified.
6. Did the audit disclose findings which are required to be reported under Sec. 5 I O (a): No
7. Major programs include::
 

84.027, 84.173	IDEA, Part B Cluster
84.002	Adult Basic Education
8. Dollar threshold used to distinguish between Type A and Type B programs: \$333,796.
9. Low risk auditee: Yes

II. Findings Related to the Financial Statements

None

III. Other Findings

Finding 2005-1	Competitive bidding violation
Criteria	The District is required to obtain competitive bids for purchases of tangible personal property in excess of \$25,000.
Condition Found	During the year ended June 30, 2005, the District contracted for the on-site scan of special education records from a vendor in excess of \$25,000, without complying with the competitive bid requirements.
Instances/Universe	This was the only competitive bid violation noted during the year.
Recommendation	Because of its size, the District will continue to encounter many purchasing situations in which competitive bid regulations are to be followed. The importance of knowing and following these requirements should continue to be emphasized to all employees involved in the purchasing process.

DENTON INDEPENDENT SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED JUNE 30, 2005

CORRECTIVE ACTION PLAN

Contact Person     Debbie Monschke, Executive Director of Budget and Finance

FINDING             Competitive bidding violation

CORRECTIVE  
ACTION

The District is aware of the competitive bid regulations, and strives to always be in compliance with their requirements. The District will continue to emphasize to employees involved in the purchasing process that the competitive bid regulations are to be followed at all times when required.

DENTON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF DEFENSE</b>			
<u>Direct Programs</u>			
ROTC	12.000	01-061901	\$ 117,047
Total Direct Programs			\$ 117,047
<b>TOTAL DEPARTMENT OF DEFENSE</b>			<b>\$ 117,047</b>
<b>U.S. DEPARTMENT OF EDUCATION</b>			
<u>Direct Programs</u>			
Impact Aid - P.L. 81.874 (Note A)	84.041	01-061901	\$ 42,014
Total Direct Programs			\$ 42,014
<u>Passed Through State Department of Education</u>			
SSA - Adult Education, Section 231	84.002A	441000132111013	\$ 15,401
SSA - Adult Education, Section 231	84.002A	54100017110033	324,519
Total CFDA Number 84.002A			339,920
ESEA Title I Part A - Improving Basic Programs	84.010A	5610101061901	2,247,137
ESEA Title I Part D Subpart 2	84.010A	5610103061901	37,310
Total CFDA Number 84.010A			2,284,447
ESEA Title I Part C - Migrant Summer School	84.011	4615001061901	7,055
ESEA Title I Part C - Migrant Summer School	84.011	5615001061901	74,263
ESEA Title I Part C - Migrant Summer School	84.011	5615024061901	25,275
Total CFDA Number 84.011			106,593
IDEA - Part B, Formula	84.027	56600010619016600	2,637,266
IDEA - Part B, Formula-Cap. Bldg. & Improv.	84.027	56600040619016604	5,245
SSA - IDEA - Part B, Formula, Deaf	84.027	466000106190144	39,534
SSA - IDEA - Part B, Discretionary, Deaf	84.027	56600020619016673	5,000
Total CFDA Number 84.027			2,687,045
SSA - Vocational Education - Basic Grant	84.048A	542000606190111	206,714
SSA - IDEA - Part B, Preschool	84.173	56610010619016610	72,731
SSA - IDEA - Part B, Preschool LRE	84.173	01-061901	9,285
SSA - IDEA - Part B, Preschool Deaf	84.173	56610010619016611	3,330
Total CFDA Number 84.173			85,346
SSA - IDEA, Part C - Deaf	84.181	53911010619013911	1,606
ESEA Title IV - Safe and Drug-Free Schools	84.186A	5691001061901	84,639
Teaching American History Grants	84.215X	U215X040306	87,729
ESEA Title VI - Innovative Education Strategies	84.298A	5685001061901	70,473
Enhancing Education Through Technology	84.318X	563001061901	58,314
ESEA Title III, Part A - LEP	84.365	5671001061901	221,928
ESEA, Title III, Part A, Immigrant	84.365	5671003061901	68,060
Total CFDA Number 84.365			289,988
ESEA Title II, Part A, Teacher & Principal Training	84.367A	5694501061901	618,939
Total Passed Through State Department of Education			\$ 6,921,753
<b>TOTAL DEPARTMENT OF EDUCATION</b>			<b>\$ 6,963,767</b>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
<u>Direct Programs</u>			
Head Start (net of \$25,967 indirect costs)	93.600	H5416/39	\$ 1,129,642
Total Direct Programs			\$ 1,129,642



DENTON INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2005

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
<u>Passed Through State Department of Education</u>			
SSA - Temporary Assistance for Needy Families	93.558	4362501711013	\$ 85
SSA - Temporary Assistance for Needy Families	93.558	5362501711013	8,162
Total CFDA Number 93.558			<u>8,247</u>
Total Passed Through State Department of Education			<u>\$ 8,247</u>
<b>TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			<u>\$ 1,137,889</u>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
<u>Passed Through State Department of Education</u>			
National School Breakfast & Lunch Program*	10.555	61901	\$ 2,652,392
Commodities	10.550	61901	204,608
Summer Feeding Program	10.559	61901	50,836
Total Passed Through State Department of Education			<u>\$ 2,907,836</u>
<b>TOTAL DEPARTMENT OF AGRICULTURE</b>			<u>\$ 2,907,836</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 11,126,539</u></u>

\*Clustered Programs as required by Compliance Supplement March, 2004

DENTON INDEPENDENT SCHOOL DISTRICT  
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS  
YEAR ENDED JUNE 30, 2005

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

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

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

3. The District participates in numerous state and Federal grant programs that are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at June 30, 2005, may be impaired. In the opinion of the District, there are not significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions has been recorded in the accompanying combined financial statements for such contingencies.

SCHOOLS FIRST QUESTIONNAIRE

Denton Independent School District

Fiscal Year 2005

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|-----|--|-----|
| SF2 | Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations? | No  |
| SF4 | Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?   | Yes |
| SF5 | Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?  | No  |
| SF9 | Was there any disclosure in the Annual Financial Report of material noncompliance?   | No  |