

**TEAGUE INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

AUGUST 31, 2005

**TEAGUE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2005**

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**TEAGUE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2005**

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CERTIFICATE OF BOARD

TEAGUE INDEPENDENT SCHOOL DISTRICT
Name of School

FREESTONE
County

081-904
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2005 at a meeting of the Board of Trustees of such school district on the 13 day of December, 2005.

Louie M. Whyte
Signature of Board Secretary

Jeff
Signature of Board President

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



Independent Auditor's Report

500 S. University Dr.
Suite 308
Fort Worth, Texas
76107-5737
Phone: 817-338-1115
Fax: 817-338-1163
www.sga-cpas.com

Board of Trustees
Teague Independent School District
800 Main St.
Teague, Texas 75860

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Teague Independent School District (the District) as of and for the year ended August 31, 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 these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Teague Independent School District as of August 31, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis on pages iv through x is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Teague Independent School District
Board of Trustees

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Teague Independent School District's basic financial statements. The accompanying Schedule of Expenditures of Federal Awards, Exhibit K-1, is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. The combining schedules are also presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Stovall, Grandey & Allen, LLP

STOVALL, GRANDEY & ALLEN, LLP
Fort Worth, Texas
October 18, 2005

TEAGUE INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Teague Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2005. Please read it in conjunction with the Independent Auditors' Report on page ii and the District's Basic Financial Statements, which begin on page 1.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on page 1 and 2). 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.

Fund financial statements (starting on page 3) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements (starting on page 12) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining schedules for nonmajor funds (pages 30-35) contain even more information about the District's individual funds. These are not required by TEA. The sections labeled Required TEA Schedules (pages 36-41) and Federal Awards Section (pages 42-49) contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 1. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as grants provided by the U.S. Department of Education to assist children with disabilities 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, the District has only one type of activity:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 3 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).

- Governmental funds—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.
- Proprietary funds—Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
- We use *internal service funds* to report activities that provide supplies and services for the District's other programs and activities—such as the District's Self Insurance Fund.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities and alumnae scholarship programs. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 11. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The District has implemented GASB Statement No. 34. We now present 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 increased from \$12,553,472 to \$14,875,613. 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 \$9,270,887 at August 31, 2005.

Table I

THE DISTRICT'S NET ASSETS
(in thousands of dollars)

| | Governmental Activities | |
|---|-------------------------|-----------|
| | 2005 | 2004 |
| Current and Other Assets | \$ 10,489 | \$ 8,474 |
| Capital Assets | 10,969 | 10,790 |
| Total Assets | 21,458 | 19,264 |
| Other Liabilities | 907 | 691 |
| Long-term Liabilities | 5,676 | 6,020 |
| Total Liabilities | 6,583 | 6,711 |
| Net Assets | | |
| Invested in Capital Assets, net of related debt | 4,968 | 4,520 |
| Restricted | 656 | 569 |
| Unrestricted | 9,251 | 7,464 |
| Total Net Assets | \$ 14,875 | \$ 12,553 |

Table II
CHANGES IN NET ASSETS
(in thousands)

| | Governmental Activities | |
|---|-------------------------|------------------|
| | 2005 | 2004 |
| Revenues: | | |
| Program Revenues: | | |
| Charges for Services | \$ 234 | \$ 229 |
| Operating grants and contributions | 1,029 | 993 |
| General Revenues: | | |
| Maintenance and operations taxes | 12,688 | 10,422 |
| Debt service taxes | 651 | 659 |
| State aid - formula grants | 571 | 511 |
| Investment Earnings | 285 | 104 |
| Miscellaneous | 101 | 167 |
| Tax Refunds | | (11) |
| Total Revenue | <u>15,559</u> | <u>13,074</u> |
| Expenses: | | |
| Instruction, curriculum and media services | 4,850 | 5,226 |
| Instructional and school leadership | 848 | 528 |
| Student support services | 467 | 452 |
| Child nutrition | 405 | 422 |
| Co curricular/Extracurricular activities | 497 | 492 |
| General administration | 501 | 465 |
| Plant maintenance, security & data processing | 1,276 | 1,156 |
| Community services | 19 | 34 |
| Debt services | 304 | 352 |
| Contracted instructional services | 3,767 | 3,407 |
| Incremental cost associated with Chapter 41 | 38 | 42 |
| Payments to Fiscal Agent | 265 | 239 |
| Total Expenses | <u>13,237</u> | <u>12,815</u> |
| Increase in net assets | 2,322 | 259 |
| Net assets at 9/1/04 | <u>12,553</u> | <u>12,294</u> |
| Net assets at 8/31/05 | <u>\$ 14,875</u> | <u>\$ 12,553</u> |

The District decreased property tax rates from \$1.51 to \$1.209 because the taxable value increased, which resulted in additional revenues. The taxable value increase was due largely to the increase of oil and gas royalties paid. Next year the tax rate will be adjusted from \$1.209 to \$1.54 with approximately \$.42 of the rate obligated due to state as a result of Chapter 41. The increase in the tax rate will be primarily due to the amount the school district must pay for Robin Hood.

The cost of all governmental activities this year was \$13.2 million compared to \$12.8 million last year. As shown in the Statement of Activities on page 2, the amount that our taxpayers financed for these activities through District taxes was \$13.3 million.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 3) reported a combined fund balance of \$9.8 million, which is slightly higher than last year's total of \$7.9 million.

Over the course of the year, the Board of Trustees revised the District's budget several times. These amendments involved 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 \$9.1 million reported on page 3 differs from the General Fund's budgetary fund balance of \$3.9 million reported in the budgetary comparison schedule on page 7. This is principally due to cost savings and added revenues described above.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the District had \$15.6 million 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 approximately \$711 thousand above last year.

The District's fiscal year 2006 capital budget calls for additional expenditures of approximately \$65,000 for a two classroom building for the elementary and possibly some road improvements at the high school. The district has no plans to issue additional debt to finance these projects. More detailed information about the District's capital assets is presented in Note F to the financial statements.

Debt

On June 9, 2005 the District issued \$4,530,000 Unlimited Tax Refunding Bonds, Series 2005. The proceeds were used to defease \$4,530,000 of the Series 2000 bonds. The new issue includes \$295,000 of Capital Appreciation Bonds ("CABS") which were issued at a discount.

At year-end the District had \$6.0 million in bonds outstanding versus \$6.3 million last year, a decrease of 3.9%. The District's general obligation bond rating is BBB.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal year 2006 budget and tax rates. Some of those factors are the economy and our Chapter 41 status.

These indicators were taken into account when adopting the General Fund budget for 2006. Amounts available for appropriation in the General Fund budget are \$18.8 million, an increase of 37% over the final 2005 budget of \$13.7 million. This increase in the budget is primarily due to the approximately \$8.8 million which will be sent to the state for our Chapter 41 (Robin Hood) payment. Property taxes account for 95% of the revenue. The District will use its revenues to finance programs currently offered as well as new programs. The District also hopes to do some much needed road repairs at the high school/junior high campus in the upcoming year.

If these estimates are realized, the District's budgetary General Fund balance is expected to decrease modestly by the close of 2006. More importantly, this will have been accomplished in spite of unfunded mandates.

ACADEMIC EXCELLENCE INDICATOR SYSTEM REPORT

The following ratings were listed in the 2004 – 2005 Academic Excellence Indicator System Report:

| | |
|----------------------------|------------|
| Teague High School | Acceptable |
| Teague Junior High School | Acceptable |
| Teague Intermediate School | Recognized |
| Teague Elementary School | Recognized |

ADMINISTRATIVE COST

One measure the State of Texas uses to measure operating cost efficiency is the administration cost ratio. They have a formula that is mandated by law to be used. Basically, it takes administration costs and divides them by instructional costs to arrive at a percentage. A district's size determines their administrative cost limitation. Based on Teague Independent School District's size, our administration cost limit has been 14.01%. Since this deals with the sensitive issue of administration costs, we felt it prudent to demonstrate what our actual ratio has been over the past several years.

| Administrative Cost Comparison | | |
|--------------------------------|-------------|-----------------|
| Year | State Limit | District Actual |
| 2001-02 | 14.01% | 12.53% |
| 2002-03 | 14.01% | 11.94% |
| 2003-04 | 14.01% | 11.25% |
| 2004-05 | 14.01% | 11.93% |
| 2005-06* | 14.01% | 11.95% |

*Projected

Financial Strength

The State of Texas recommends we discuss financial strength in this report. This is a difficult topic to address because there are many measures of financial strength, some are better than others. For Teague I.S.D., we believe the most significant financial indicator of strength is our ability to meet our cash flow needs from September to December each year, before the majority of taxes come in, without borrowing money. There have been no borrowed funds for operating reasons since 1992. This in itself indicates adequate financial strength. The following are examples of construction projects that have been paid for out of our operating budget.

| Project | Year | Cost |
|------------------------------|-------------|-------------|
| Power Mechanics Shop | 1980 | \$ 36,992 |
| Band Hall | 1980 | 146,000 |
| Bus Barn | 1980 | 61,366 |
| Ag-Barn & Storage Building | 1984 | 28,000 |
| Science Building | 1985 | 248,550 |
| Intermediate School | 1986 | 980,000 |
| High School Gym | 1992 | 785,000 |
| Field House Addition | 1998 | 170,000 |
| Ag-Shop Addition | 2002 | 127,000 |
| Sport Facilities Lighting | 2002 | 82,000 |
| Refurbished Auditorium | 2003 | 50,013 |
| Maintenance Storage Building | 2003 | 44,208 |
| Building Renovations | 2004 | 362,835 |
| Baseball Field Restrooms | 2005 | 30,684 |
| Intermediate Gym | 2005 | 524,952 |
| Intermediate Classrooms | 2005 | 48,160 |
| High School Classrooms | 2005 | 52,347 |

OPERATING COST MANAGEMENT

Only a small portion of our total General Fund expenditures is flexible or variable in nature. Salaries and benefits comprise the biggest expenditure each year, followed closely by our "Robin Hood" payment. Utility payments fluctuate greatly from year to year, but still make up our third largest expenditure. Once you remove those three large expenditures from the equation, you are left with a small portion of our budget that retains some semblance of control for us. Supplies, materials, travel and training and a few contracted services comprise this remaining balance. We consider these costs to be our controllable operating cost.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Teague Independent School District, 420 N. 10th., Teague, Texas 75860, Freestone County.

Prepared by:
Mary H. Clary
Business Manager

BASIC FINANCIAL STATEMENTS

TEAGUE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2005

EXHIBIT A-1

| Data Control Codes | Primary Government |
|--|----------------------------|
| | Governmental Activities |
| ASSETS | |
| 1110 Cash and Cash Equivalents | \$ 427,533 |
| 1120 Current Investments | 9,774,499 |
| 1220 Property Taxes Receivable (Delinquent) | 1,032,476 |
| 1230 Allowance for Uncollectible Taxes | (887,929) |
| 1240 Due from Other Governments | 61,350 |
| 1420 Capitalized Bond & Other Debt Issuance Costs | 57,965 |
| 1490 Prepaid Expense | 23,620 |
| 1510 Land | 316,425 |
| 1520 Buildings, net | 10,120,416 |
| 1530 Furniture and Equipment, net | 532,170 |
| 1000 Total Assets | 21,458,525 |
| LIABILITIES | |
| 2105 Cash Deficit | 1,710 |
| 2110 Accounts Payable | 83,403 |
| 2160 Accrued Wages Payable | 362,579 |
| 2180 Due to Other Governments | 25,847 |
| 2200 Accrued Expenses | 108,733 |
| Long Term Liabilities: | |
| 2501 Due Within One Year | 325,000 |
| 2502 Due in More Than One Year | 5,675,640 |
| 2000 Total Liabilities | 6,582,912 |
| NET ASSETS | |
| 3200 Invested in Capital Assets, Net of Related Debt | 4,968,371 |
| 3850 Restricted for Debt Service | 655,715 |
| 3900 Unrestricted Net Assets | 9,251,527 |
| 3000 Total Net Assets | \$ 14,875,613 |

The accompanying notes are an integral part of this statement.

TEAGUE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2005

EXHIBIT B-1

| Data Control Codes | 1 | Program Revenues | | 6 |
|--|----------------------|-------------------|------------------------------|---|
| | | Expenses | 3 Charges for Services | 4 Operating Grants and Contributions |
| Primary Government: | | | | |
| GOVERNMENTAL ACTIVITIES: | | | | |
| 11 Instruction | \$ 4,850,324 | \$ 18,562 | \$ 607,802 | \$ (4,223,960) |
| 12 Instructional Resources & Media Services | 241,625 | - | 65,856 | (175,769) |
| 13 Curriculum and Staff Development | 69,897 | - | 17,811 | (52,086) |
| 21 Instructional Leadership | 75,112 | - | 10,322 | (64,790) |
| 23 School Leadership | 460,872 | 793 | 24,329 | (435,750) |
| 31 Guidance, Counseling & Evaluation Services | 161,380 | - | 8,669 | (152,711) |
| 33 Health Services | 63,227 | - | 3,838 | (59,389) |
| 34 Student (Pupil) Transportation | 242,632 | 9,546 | 12,464 | (220,622) |
| 35 Food Services | 405,128 | 115,148 | 215,292 | (74,688) |
| 36 Cocurricular/Extracurricular Activities | 497,173 | 50,648 | 12,123 | (434,402) |
| 41 General Administration | 500,518 | 38,041 | 17,677 | (444,800) |
| 51 Plant Maintenance and Operations | 1,225,296 | 1,585 | 32,612 | (1,191,099) |
| 52 Security and Monitoring Services | 7,280 | - | 214 | (7,066) |
| 53 Data Processing Services | 43,882 | - | - | (43,882) |
| 61 Community Services | 18,728 | - | 71 | (18,657) |
| 72 Debt Service - Interest on Long Term Debt | 303,104 | - | - | (303,104) |
| 73 Debt Service - Bond Issuance Cost & Fees | 1,203 | - | - | (1,203) |
| 91 Contracted Instructional Services Between Schools | 3,767,021 | - | - | (3,767,021) |
| 92 Incremental Costs Associated with Chapter 41 | 38,283 | - | - | (38,283) |
| 93 Payments to Fiscal Agent/Member Districts of SSA | 264,285 | - | - | (264,285) |
| [TP] TOTAL PRIMARY GOVERNMENT: | \$ 13,236,970 | \$ 234,323 | \$ 1,029,079 | (11,973,568) |

| Data Control Codes | General Revenues: | | |
|--------------------------|--|--|----------------------|
| | Taxes: | | |
| MT | Property Taxes, Levied for General Purposes | | 12,687,550 |
| DT | Property Taxes, Levied for Debt Service | | 650,990 |
| SF | State Aid - Formula Grants | | 571,098 |
| IE | Investment Earnings | | 285,469 |
| MI | Miscellaneous Local and Intermediate Revenue | | 100,602 |
| TR | Total General Revenues | | <u>14,295,709</u> |
| CN | Change in Net Assets | | 2,322,141 |
| NB | Net Assets--Beginning | | <u>12,553,472</u> |
| NE | Net Assets--Ending | | <u>\$ 14,875,613</u> |

The accompanying notes are an integral part of this statement.

TEAGUE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2005

| Data Control Codes | 10 General Fund | Other Funds | Total Governmental Funds |
|--------------------------------------|-----------------------|-------------------|--------------------------------|
| ASSETS | | | |
| 1110 | \$ 380,668 | \$ 46,438 | \$ 427,106 |
| 1120 | 9,116,715 | 657,784 | 9,774,499 |
| 1220 | 945,102 | 87,374 | 1,032,476 |
| 1230 | (812,787) | (75,142) | (887,929) |
| 1240 | 49,519 | 11,831 | 61,350 |
| 1490 | 23,620 | - | 23,620 |
| 1000 | <u>\$ 9,702,837</u> | <u>\$ 728,285</u> | <u>\$ 10,431,122</u> |
| LIABILITIES AND FUND BALANCES | | | |
| Liabilities: | | | |
| 2105 | \$ - | \$ 1,710 | \$ 1,710 |
| 2110 | 69,671 | 13,732 | 83,403 |
| 2160 | 342,674 | 19,905 | 362,579 |
| 2180 | 25,410 | 437 | 25,847 |
| 2300 | 132,314 | 12,232 | 144,546 |
| 2000 | <u>\$ 570,069</u> | <u>\$ 48,016</u> | <u>\$ 618,085</u> |
| Fund Balances: | | | |
| Reserved For: | | | |
| 3420 | \$ - | \$ 655,715 | \$ 655,715 |
| Unreserved Designated For: | | | |
| 3590 | 4,700,000 | 1,845 | 4,701,845 |
| Unreserved and Undesignated: | | | |
| 3600 | 4,432,768 | - | 4,432,768 |
| 3610 | - | 22,709 | 22,709 |
| 3000 | <u>\$ 9,132,768</u> | <u>\$ 680,269</u> | <u>\$ 9,813,037</u> |
| 4000 | <u>\$ 9,702,837</u> | <u>\$ 728,285</u> | <u>\$ 10,431,122</u> |

The accompanying notes are an integral part of this statement.

TEAGUE INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 AUGUST 31, 2005

| | | |
|--|-----------|-------------------|
| Total Fund Balances - Governmental Funds | \$ | 9,813,037 |
| <p>The District uses internal service funds to charge the costs of certain activities, such as self-insurance, 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.</p> | | |
| | | 427 |
| <p>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 \$14,902,792 and the accumulated depreciation was \$4,112,524. In addition, long-term liabilities, including bonds payable of \$6,270,000, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets.</p> | | |
| | | 4,520,268 |
| <p>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.</p> | | |
| | | 961,657 |
| <p>The 2005 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.</p> | | |
| | | (532,914) |
| <p>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 and eliminating interfund transactions. Other adjustments to convert to accrual basis include recognizing assets and additional liabilities associated with issuance of the new refunding bonds. The net effect of these reclassifications and recognitions is to increase net assets.</p> | | |
| | | 113,138 |
| Net Assets of Governmental Activities | \$ | 14,875,613 |

The accompanying notes are an integral part of this statement.

TEAGUE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2005

| Data Control Codes | 10 General Fund | Other Funds | Total Governmental Funds | |
|--|---|----------------|--------------------------------|---------------|
| REVENUES: | | | | |
| 5700 | Total Local and Intermediate Sources | \$ 13,184,847 | \$ 815,814 | \$ 14,000,661 |
| 5800 | State Program Revenues | 878,348 | 152,036 | 1,030,384 |
| 5900 | Federal Program Revenues | 1,014 | 568,779 | 569,793 |
| 5020 | Total Revenues | 14,064,209 | 1,536,629 | 15,600,838 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| 0011 | Instruction | 4,106,199 | 406,454 | 4,512,653 |
| 0012 | Instructional Resources & Media Services | 160,453 | 60,797 | 221,250 |
| 0013 | Curriculum & Instructional Staff Development | 44,711 | 16,880 | 61,591 |
| 0021 | Instructional Leadership | 59,403 | 8,549 | 67,952 |
| 0023 | School Leadership | 447,444 | 1,875 | 449,319 |
| 0031 | Guidance, Counseling & Evaluation Services | 154,781 | 1,592 | 156,373 |
| 0033 | Health Services | 57,454 | 1,000 | 58,454 |
| 0034 | Student (Pupil) Transportation | 222,185 | 2,791 | 224,976 |
| 0035 | Food Services | 49,754 | 344,194 | 393,948 |
| 0036 | Cocurricular/Extracurricular Activities | 438,453 | - | 438,453 |
| 0041 | General Administration | 474,853 | 3,000 | 477,853 |
| 0051 | Plant Maintenance and Operations | 1,181,278 | 9,949 | 1,191,227 |
| 0052 | Security and Monitoring Services | 7,280 | - | 7,280 |
| 0053 | Data Processing Services | 43,882 | - | 43,882 |
| 0061 | Community Services | 10,760 | - | 10,760 |
| Debt Service: | | | | |
| 0071 | Debt Service - Principal on long-term debt | - | 250,000 | 250,000 |
| 0072 | Debt Service - Interest on long-term debt | - | 244,858 | 244,858 |
| 0073 | Debt Service - Bond Issuance Cost and Fees | - | 94,512 | 94,512 |
| Capital Outlay: | | | | |
| 0081 | Facilities Acquisition and Construction | 726,670 | - | 726,670 |
| Intergovernmental: | | | | |
| 0091 | Contracted Instructional Services Between Schools | 3,767,021 | - | 3,767,021 |
| 0092 | Incremental Costs Associated with Chapter 41 | 38,283 | - | 38,283 |
| 0093 | Payments to Fiscal Agent/Member Districts of SSA | 264,285 | - | 264,285 |
| 6030 | Total Expenditures | 12,255,149 | 1,446,451 | 13,701,600 |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | 1,809,060 | 90,178 | 1,899,238 |
| OTHER FINANCING SOURCES (USES): | | | | |
| 7901 | Refunding Bonds Issued | - | 4,530,000 | 4,530,000 |
| 7915 | Transfers In | - | 15,000 | 15,000 |
| 7916 | Premium or Discount on Issuance of Bonds | - | 378,739 | 378,739 |
| 8911 | Transfers Out (Use) | (15,000) | - | (15,000) |
| 8940 | Payment to Bond Refunding Escrow Agent (Use) | - | (4,902,816) | (4,902,816) |
| 7080 | Total Other Financing Sources (Uses) | (15,000) | 20,923 | 5,923 |
| 1200 | Net Change in Fund Balances | 1,794,060 | 111,101 | 1,905,161 |
| 0100 | Fund Balance - September 1 (Beginning) | 7,338,708 | 569,168 | 7,907,876 |
| 3000 | Fund Balance - August 31 (Ending) | \$ 9,132,768 | \$ 680,269 | \$ 9,813,037 |

The accompanying notes are an integral part of this statement.

TEAGUE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2005

| | | |
|---|-----------|------------------|
| Total Net Change in Fund Balances - Governmental Funds | \$ | 1,905,161 |
| 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. | | 961,657 |
| 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. | | (532,914) |
| 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, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net assets. | | (102,598) |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in treatment of long-term debt and related items. | | 90,835 |
| Change in Net Assets of Governmental Activities | \$ | 2,322,141 |

The accompanying notes are an integral part of this statement.

TEAGUE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2005

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) | |
|--|---|---------------|--------------------------------|--|--------------|
| | Original | Final | | | |
| REVENUES: | | | | | |
| 5700 | Total Local and Intermediate Sources | \$ 10,046,226 | \$ 10,046,226 | \$ 13,184,847 | \$ 3,138,621 |
| 5800 | State Program Revenues | 280,000 | 280,000 | 878,348 | 598,348 |
| 5900 | Federal Program Revenues | 750 | 750 | 1,014 | 264 |
| 5020 | Total Revenues | 10,326,976 | 10,326,976 | 14,064,209 | 3,737,233 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| 0011 | Instruction | 4,599,174 | 4,574,658 | 4,106,199 | 468,459 |
| 0012 | Instructional Resources & Media Services | 249,613 | 248,213 | 160,453 | 87,760 |
| 0013 | Curriculum & Instructional Staff Development | 60,463 | 57,288 | 44,711 | 12,577 |
| 0021 | Instructional Leadership | 59,950 | 61,800 | 59,403 | 2,397 |
| 0023 | School Leadership | 500,673 | 499,583 | 447,444 | 52,139 |
| 0031 | Guidance, Counseling & Evaluation Services | 162,728 | 162,160 | 154,781 | 7,379 |
| 0033 | Health Services | 53,255 | 58,628 | 57,454 | 1,174 |
| 0034 | Student (Pupil) Transportation | 288,756 | 295,031 | 222,185 | 72,846 |
| 0035 | Food Services | 61,465 | 54,015 | 49,754 | 4,261 |
| 0036 | Cocurricular/Extracurricular Activities | 461,742 | 470,245 | 438,453 | 31,792 |
| 0041 | General Administration | 562,501 | 564,050 | 474,853 | 89,197 |
| 0051 | Plant Maintenance and Operations | 1,276,308 | 1,279,463 | 1,181,278 | 98,185 |
| 0052 | Security and Monitoring Services | 7,445 | 7,445 | 7,280 | 165 |
| 0053 | Data Processing Services | 35,700 | 44,000 | 43,882 | 118 |
| 0061 | Community Services | 25,540 | 17,240 | 10,760 | 6,480 |
| 0073 | Debt Service - Bond Issuance Cost and Fees | 1,800 | 1,000 | - | 1,000 |
| 0081 | Facilities Acquisition and Construction | 604,400 | 775,400 | 726,670 | 48,730 |
| 0091 | Contracted Instructional Services Between Schools | 4,500,000 | 4,245,000 | 3,767,021 | 477,979 |
| 0092 | Incremental Costs Associated with Chapter 41 | - | 40,000 | 38,283 | 1,717 |
| 0093 | Payments to Fiscal Agent/Member Districts of SSA | 249,000 | 289,000 | 264,285 | 24,715 |
| 6030 | Total Expenditures | 13,760,513 | 13,744,219 | 12,255,149 | 1,489,070 |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | (3,433,537) | (3,417,243) | 1,809,060 | 5,226,303 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| 8911 | Transfers Out (Use) | - | (16,500) | (15,000) | 1,500 |
| 7080 | Total Other Financing Sources (Uses) | - | (16,500) | (15,000) | 1,500 |
| 1200 | Net Change in Fund Balances | (3,433,537) | (3,433,743) | 1,794,060 | 5,227,803 |
| 0100 | Fund Balance - September 1 (Beginning) | 7,338,708 | 7,338,708 | 7,338,708 | - |
| 3000 | Fund Balance - August 31 (Ending) | \$ 3,905,171 | \$ 3,904,965 | \$ 9,132,768 | \$ 5,227,803 |

The accompanying notes are an integral part of this statement.

TEAGUE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
AUGUST 31, 2005

EXHIBIT D-1

| | Governmental Activities - |
|---------------------------|------------------------------|
| | Internal Service Fund |
| <hr/> | |
| ASSETS | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 427 |
| Total Assets | <u>427</u> |
| NET ASSETS | |
| Unrestricted Net Assets | <u>427</u> |
| Total Net Assets | <u><u>\$ 427</u></u> |

The accompanying notes are an integral part of this statement.

TEAGUE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2005

EXHIBIT D-2

| | Governmental Activities - | |
|--|------------------------------|--|
| | Internal Service Fund | |
| OPERATING REVENUES: | | |
| Local and Intermediate Sources | \$ 21,862 | |
| Total Operating Revenues | 21,862 | |
| OPERATING EXPENSES: | | |
| Professional and Contracted Services | 21,862 | |
| Total Operating Expenses | 21,862 | |
| Operating Income | - | |
| Total Net Assets - September 1 (Beginning) | 427 | |
| Total Net Assets - August 31 (Ending) | \$ 427 | |

The accompanying notes are an integral part of this statement.

TEAGUE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2005

| | Governmental Activities - |
|---|------------------------------|
| | Internal Service Fund |
| <u>Cash Flows from Operating Activities:</u> | |
| Cash Received from Assessments - Other Funds | \$ 21,862 |
| Cash Payments for Other Operating Expenses | (21,862) |
| Net Cash Provided by Operating Activities | <u>-</u> |
| Net Increase in Cash and Cash Equivalents | - |
| Cash and Cash Equivalents at Beginning of the Year: | <u>427</u> |
| Cash and Cash Equivalents at the End of the Year: | <u>\$ 427</u> |
| <u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u> | |
| Operating Income (Loss): | <u>\$ -</u> |

The accompanying notes are an integral part of this statement.

TEAGUE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2005

| | Agency Fund |
|---------------------------|------------------|
| <hr/> | |
| ASSETS | |
| Cash and Cash Equivalents | \$ 44,305 |
| Total Assets | <u>\$ 44,305</u> |
| LIABILITIES | |
| Due to Student Groups | \$ 44,305 |
| Total Liabilities | <u>\$ 44,305</u> |

The accompanying notes are an integral part of this statement.

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2005**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

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

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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

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

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2005**

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS, continued

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

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

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

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

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

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible to accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

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

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2005**

D. FUND ACCOUNTING

The District reports the following major governmental funds:

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

Additionally, the District reports the following fund types:

Governmental Funds:

1. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in special revenue funds, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
2. **Debt Service Fund** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.
3. **Capital Projects Fund** – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Proprietary Funds:

4. **Internal Service Fund** – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District's internal service fund is an Insurance Fund.

Fiduciary Funds:

5. **Agency Fund** – The District accounts for resources held for others in a custodial capacity in agency funds. Fiduciary funds are reported in the fiduciary fund financial statements. However, because these assets are not available to support District programs, this fund is not included in the government-wide statements. The District's agency fund is a Student Activity Fund.

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary and similar fund-types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. 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.

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2005**

E. OTHER ACCOUNTING POLICIES, continued

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

3. It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the government. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.
4. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

| Assets | Years |
|----------------------------|-------|
| Buildings and Improvements | 10-30 |
| Furniture and Equipment | 5-20 |
| Vehicles | 10-15 |

5. All employees of the District are eligible to be covered by a fully insured health insurance plan with insurance premiums paid by the District. Employees may elect to pay for dependent coverage and upgrades.

The District participates in a partially self-funded workers' compensation pool administered by Claims Administrative Services, Inc. The District accounts for this plan according to GASB Statement No. 10 whereby fixed costs are recognized as an insurance expenditure/expense. A liability for estimated claims is reflected in the government-wide financial statements. The liability includes claims that have been reported and claims that have been incurred but not reported ("IBNR"). IBNR is a projection based on the experience history of the District.

6. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2005**

E. OTHER ACCOUNTING POLICIES, continued

7. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.
8. The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide data base for policy development and funding plans.

II. 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

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

| <u>Capital Assets at the Beginning of the year</u> | <u>Historic Cost</u> | <u>Accumulated Depreciation</u> | <u>Net Value at the Beginning of the Year</u> | <u>Change in Net Assets</u> |
|---|----------------------|-------------------------------------|---|---------------------------------|
| Land | \$ 316,425 | \$ - | \$ 316,425 | |
| Buildings | 13,482,926 | 3,564,162 | 9,918,764 | |
| Furniture and Equipment | 1,103,441 | 548,362 | 555,079 | |
| | <u>\$ 14,902,792</u> | <u>\$ 4,112,524</u> | <u>\$ 10,790,268</u> | |
| Change in Net Assets | | | | \$ 10,790,268 |
| <u>Long-term Liabilities at the Beginning of the year</u> | | | <u>Payable at the Beginning of the Year</u> | |
| Bonds Payable | | | <u>\$ 6,270,000</u> | <u>(6,270,000)</u> |
| Net Adjustment to Net Assets | | | | <u>\$ 4,520,268</u> |

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2005**

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

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Changes in Net Assets of Governmental Activities as reported on the government-wide Statement of Activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

| | <u>Amount</u> | <u>Adjustments to Changes in Net Assets</u> | <u>Adjustments to Net Assets</u> |
|------------------------------------|---------------|---|--------------------------------------|
| <u>Current Year Capital Outlay</u> | | | |
| Buildings and Improvements | \$ 656,143 | | |
| Furniture and Equipment | <u>55,514</u> | | |
| Total Capital Outlay | 711,657 | \$ 711,657 | \$ 711,657 |
| <u>Debt Principal Payments</u> | | | |
| Bond Principal | 250,000 | <u>250,000</u> | <u>250,000</u> |
| Total | | <u>\$ 961,657</u> | <u>\$ 961,657</u> |

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2005**

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, continued

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

| | Amount | Adjustments to Changes in Net Assets | Adjustments to Net Assets |
|---|--------------|--|------------------------------|
| <u>Adjustments to Revenue and Deferred Revenue</u> | | | |
| Taxes Collected from Prior Year Levies | \$ 129,725 | \$ (129,725) | \$ |
| Uncollected taxes (assumed collectible) from Current Year Levy | 40,524 | 40,524 | 40,524 |
| Uncollected Taxes (assumed collectible) from Prior Year Levy | 104,022 | | 104,022 |
| Adjustment to Prior Year Estimate of Collectible Taxes | 47,474 | 47,474 | |
| | | (41,727) | 144,546 |
| <u>Adjustments to Expenses and Liabilities</u> | | | |
| Estimated Liability for Workers' Compensation Claims | 60,548 | | (60,548) |
| Decrease in Estimated Claims from Prior Year | 824 | 824 | |
| Refunding Bond Premiums (net) | 365,693 | | (365,693) |
| Amortize Bond Premiums | 13,046 | 13,046 | |
| Bond Issuance Costs (net) | 57,965 | | 57,965 |
| Amortize Bond Issuance Costs | 902 | (902) | |
| Bond Discount (net) | 37,590 | | 37,590 |
| Amortize Bond Discount | 301 | (301) | |
| Deferred Refunding Loss (net) | 356,762 | | 356,762 |
| Amortize Deferred Refunding Loss | 16,054 | (16,054) | |
| Accrue Interest Expense on 2005 Bond Issue | 48,185 | (48,185) | (48,185) |
| Accretion on Capital Appreciation Bonds | 9,299 | (9,299) | (9,299) |
| | | \$ (102,598) | \$ 113,138 |
| <u>Reclassification of New Bond Issue</u> | | | |
| Issuance of General Obligation Bonds | \$ 4,530,000 | \$ (4,530,000) | |
| Premium on New Bond Issue | 378,739 | (378,739) | |
| Payment to Escrow Agent for Refunding | 4,902,816 | 4,902,816 | |
| Issuance Costs of New Bonds | 58,867 | 58,867 | |
| Discount for New Bond | 37,891 | 37,891 | |
| | | \$ 90,835 | |

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2005**

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit C-5 and the other two reports are in Exhibits J-4 and J-5.

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

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. Significant additions were made for construction and contracted instructional services between schools in compliance with Chapter 41.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2005**

IV. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank 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.

At August 31, 2005, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$425,823 and the bank balance was \$590,937.

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.

The District had the following investments as of August 31, 2005.

| Name | Carrying Amount | Market Value |
|-----------|--------------------|-----------------|
| Tex Pool | \$ 4,936,395 | \$ 4,936,395 |
| Lone Star | 4,838,104 | 4,838,104 |
| | \$ 9,774,499 | \$ 9,774,499 |

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

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2005**

A. DEPOSITS AND INVESTMENTS, continued

TexPool is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Texas Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate TexPool. In addition, the TexPool Advisory Board advises on TexPool's Investment Policy. This Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool. TexPool is subject to annual review by an independent auditor consistent with the Public Funds Investment Act. KPMG Peat Marwick, 111 Congress Avenue, Suite 1100, Austin, Texas 78701 performs the annual audit. In addition, TexPool is subject to review by the State Auditor's Office and by the Internal Auditor of the Comptroller's Office.

Lone Star Investment Pool was organized in 1991 in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Pool is administered by First Public, formerly known as Texas Association of School Boards Financial Services. Lone Star Investment Pool is governed by an 11-member board, all of whom are participants in the Pool. An independent, third-party investment consultant reports directly to the Board of Trustees. The independent consultant, RBC Dain Rauscher, Inc., Dallas, Texas, reviews the daily operations of the Pool, analyzes all investment transactions for compliance with the Investment Policy, monitors activities of the custodian bank, and compares the investment advisor's performance with benchmarks and a peer group of similarly managed funds. The Pool also employs an independent, third-party bank, The Bank of New York, headquartered in New York, New York, to perform custody and valuation services. The Lone Star Investment Pool is subject to annual review by an independent auditor consistent with the Public Funds Investment Act. Ernst & Young, 700 Lavaca St., Suite 1400, Austin, Texas 78701, performs the annual audit.

Policies Governing Deposits and Investments

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

Custodial Credit Risk – Deposits: This is the risk that in the event of bank failure, the District's deposits may not be returned to it. The District's policy regarding types of deposits allowed and collateral requirements is consistent with the Public Funds Investment Act (Government Code Chapter 2256). The District was not exposed to custodial credit risk since its deposits at year-end were covered by depository insurance or by pledged collateral held by the District's agent bank in the District's name.

Custodial Credit Risk – Investments: 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. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Thus positions in external investment pools are not subject to custodial credit risk because they are not evidenced by securities that exist in physical or book entry form. The District's investments are in external investment pools.

Other Credit Risk: There is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. To minimize credit risk, TexPool's investment policy allows the portfolio's investment manager to only invest in obligations of the U.S. Government, its agencies; repurchase agreements; and no-load AAAM money market mutual funds registered with the SEC. As of August 31, 2005, TexPool's investments credit quality rating was AAAM (Standard & Poor's).

The credit quality rating for Lone Star Investment Pool was AAAM (Standards & Pools).

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2005**

B. PROPERTY TAXES

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

C. DELINQUENT TAXES RECEIVABLE

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

D. INTERFUND BALANCES AND TRANSFERS

Interfund transfers for the year ended August 31, 2005 consisted of the following amounts:

| | |
|---|------------------|
| Transfer to Special Revenue Food Service Fund from: | |
| General Fund | <u>\$ 15,000</u> |

There were no interfund balances at August 31, 2005.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2005, were as follows:

| | Property Taxes | Due From Other Governments | Total Receivables |
|--|-------------------|----------------------------------|----------------------|
| Governmental Activities | | | |
| General Fund | \$ 945,102 | \$ 49,519 | \$ 994,621 |
| Non-major Governmental Funds | 87,374 | 11,831 | 99,205 |
| Total – Governmental Activities | \$ 1,032,476 | \$ 61,350 | \$ 1,093,826 |
| Amounts not scheduled for collection during the subsequent year | \$ 887,929 | \$ | \$ 887,929 |

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2005**

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES, continued

Payables at August 31, 2005, were as follows:

| | <u>Cash Deficit</u> | <u>Accounts Payable</u> | <u>Salaries and Benefits</u> | <u>Due to Other Governments</u> | <u>Total Payables</u> |
|--|-------------------------|-----------------------------|----------------------------------|-------------------------------------|---------------------------|
| Governmental Activities | | | | | |
| General Fund | \$ | \$ 69,671 | \$ 342,674 | \$ 25,410 | \$ 437,755 |
| Non-major Governmental Funds | 1,710 | 13,732 | 19,905 | 437 | 35,784 |
| Total - Governmental Activities | <u>\$ 1,710</u> | <u>\$ 83,403</u> | <u>\$ 362,579</u> | <u>\$ 25,847</u> | <u>\$ 473,539</u> |
| Amounts not scheduled for payment during the subsequent | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended August 31, 2005, was as follows:

| | <u>Primary Government</u> | | | <u>Ending Balance</u> |
|--|------------------------------|-------------------|--------------------|---------------------------|
| | <u>Beginning Balance</u> | <u>Additions</u> | <u>Retirements</u> | |
| Governmental Activities: | | | | |
| Land | \$ 316,425 | \$ | \$ | \$ 316,425 |
| Buildings and Improvements | 13,482,926 | 656,143 | | 14,139,069 |
| Furniture and Equipment | 1,103,441 | 55,514 | | 1,158,955 |
| Totals at Historic Cost | <u>14,902,792</u> | <u>711,657</u> | | <u>15,614,449</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings and Improvements | 3,564,162 | 454,491 | | 4,018,653 |
| Furniture and Equipment | 548,362 | 78,423 | | 626,785 |
| Total Accumulated Depreciation | <u>4,112,524</u> | <u>532,914</u> | | <u>4,645,438</u> |
| Governmental Activities Capital Assets, Net | <u>\$ 10,790,268</u> | <u>\$ 178,743</u> | <u>\$</u> | <u>\$ 10,969,011</u> |

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2005**

F. CAPITAL ASSET ACTIVITY, continued

Depreciation expense was charged to governmental functions as follows:

| | |
|--|------------|
| Instruction | \$ 337,671 |
| Instructional Resources and Media Services | 20,375 |
| Curriculum Development | 8,306 |
| Instructional Leadership | 7,160 |
| School Leadership | 11,553 |
| Guidance, Counseling and Evaluation Services | 5,007 |
| Health Services | 4,773 |
| Student (Pupil) Transportation | 17,656 |
| Food Services | 11,180 |
| Cocurricular/Extracurricular Activities | 58,720 |
| General Administration | 23,489 |
| Plant Maintenance and Operations | 19,056 |
| Community Services | 7,968 |
| Total Depreciation Expense | \$ 532,914 |

G. BONDS PAYABLE

On June 9, 2005 the District issued \$4,530,000 Unlimited Tax Refunding Bonds, Series 2005. The proceeds were used to defease \$4,530,000 of the Series 2000 bonds. The new issue includes \$295,000 of Capital Appreciation Bonds ("CABS") which were issued at a discount. The interest on these bonds accretes each year but is paid with the principal at maturity of the bonds. The CABs mature in the school years ending August 31, 2011 and 2012. Interest rates vary from 3 to 4% and are payable semiannually on the current interest bonds. Premiums advanced with the bonds are amortized over the term of the new issue.

The accumulated accreted interest and unamortized premium are liabilities of the District and are recorded as Long-Term Liabilities in the Statement of Net Assets.

Long-term activity for the year ended August 31, 2005, was as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due in One Year |
|---------------------------------|----------------------|--------------|--------------|-------------------|--------------------|
| Governmental Activities: | | | | | |
| General Obligation Bonds | | | | | |
| Series 2000 | \$ 6,270,000 | \$ | \$ 4,780,000 | \$ 1,490,000 | \$ 265,000 |
| Series 2005 | | 4,235,000 | | 4,235,000 | 60,000 |
| CAB 2005 | | 295,000 | | 295,000 | |
| | 6,270,000 | 4,530,000 | 4,780,000 | 6,020,000 | 325,000 |
| CAB Accretion | | 9,299 | | 9,299 | |
| Series 2005 Premium | | 378,739 | 13,046 | 365,693 | |
| Less Deferred Amounts: | | | | | |
| For issuance discounts | | (37,891) | (301) | (37,590) | |
| For refunding loss | | (372,816) | (16,054) | (356,762) | |
| | \$ 6,270,000 | \$ 4,507,331 | \$ 4,776,691 | \$ 6,000,640 | \$ 325,000 |

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2005**

G. BONDS PAYABLE, continued

Debt service requirements are as follows:

| Year Ended August 31 | Total Principal | Total Interest | Total |
|-------------------------|---------------------|---------------------|---------------------|
| 2006 | \$ 325,000 | \$ 243,305 | \$ 568,305 |
| 2007 | 340,000 | 224,065 | 564,065 |
| 2008 | 360,000 | 204,866 | 564,866 |
| 2009 | 380,000 | 186,156 | 566,156 |
| 2010 | 405,000 | 166,974 | 571,974 |
| 2011-2015 | 1,615,000 | 1,238,225 | 2,853,225 |
| 2016-2020 | 2,595,000 | 270,443 | 2,865,443 |
| Total | <u>\$ 6,020,000</u> | <u>\$ 2,534,034</u> | <u>\$ 8,554,034</u> |

H. DEFINED BENEFIT PENSION PLAN

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

Plan Funding. State law provides for fiscal years 2003, 2004 and 2005 a state contribution rate of 6.0% and a member contribution rate of 6.4%. In certain instances the reporting district (I.S.D., college, university, or state agency) is required to make all or a portion of the state's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a 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 ended August 31, 2003, 2004 and 2005 were \$332,256, \$357,501 and \$351,011, respectively. State contributions to TRS made on behalf of Teague Independent School District's employees for the years ended August 31, 2003, 2004 and 2005 were \$277,802, \$344,417 and \$360,042, respectively. Teague Independent School District paid additional state contributions for the years ended August 31, 2003, 2004 and 2005 in the amount of \$22,609, \$17,574 and \$25,118, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2005**

I. HEALTHCARE COVERAGE

During the year ended August 31, 2005, employees of the Teague Independent School District were covered by a health insurance plan (the "Plan"). The District contributed \$275 per month per employee to TRS Active Care-Blue Cross Blue Shield, and employees, at their option, authorized payroll withholdings to pay contributions on premiums for dependents.

J. WORKERS' COMPENSATION COVERAGE

The District participates in a partially self-funded workers' compensation pool administered by Claims Administrative Services, Inc. The District pays a contribution for the fund year to cover the servicing cost of program administration, claims handling, loss control and stop loss coverage. Provided the District remains in the pool, there are no additional fees for services. The District's required contribution for the year ended August 31, 2005, was \$38,168 and was recorded as an insurance expenditure. The District pays a contribution for the fund year to cover the servicing cost of the program administration, claims handling, loss control and stop loss coverage. The District is responsible for an annual fixed cost of \$23,607 and payment of all claims up to a maximum of \$56,401 annually.

Changes in the balances of workers' compensation claims liabilities during the past year are as follows:

| | | |
|------------------------------------|----|-----------------|
| Unpaid Claims, September 1, 2004 | \$ | 61,372 |
| Incurred claims (including IBNR's) | | 16,773 |
| Claim Payments | | <u>(17,597)</u> |
| Unpaid claims, August 31, 2005 | \$ | <u>60,548</u> |

K. DEFERRED REVENUE

Deferred revenue at year-end as reported on Exhibit C-1 of the Funds Statements consisted of the following:

| | General Fund | Debt Service Fund | Total |
|-----------------|-----------------|----------------------|------------|
| Net Tax Revenue | \$ 132,314 | \$ 12,232 | \$ 144,546 |

Adjustments required for government-wide Statement of Net Assets decreased deferred revenue by \$144,546.

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2005**

L. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 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.

| Fund | State Entitlements | State/Federal Grants | Total |
|-----------------|-----------------------|-------------------------|------------------|
| General | \$ 49,519 | \$ | \$ 49,519 |
| Special Revenue | 1,710 | 10,121 | 11,831 |
| Total | <u>\$ 51,229</u> | <u>\$ 10,121</u> | <u>\$ 61,350</u> |

M. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

During the current year, revenues from local and intermediate sources as reported on Exhibit C-3 of the Funds Statements consisted of the following:

| | General Fund | Special Revenue Fund | Debt Service Fund | Total |
|--|----------------------|----------------------------|----------------------|----------------------|
| Property Taxes | \$ 12,731,603 | \$ | \$ 654,771 | \$ 13,386,374 |
| Penalties, Interest and Other Tax- related Income | 84,825 | | 4,857 | 89,682 |
| Investment Income | 267,639 | 135 | 17,694 | 285,468 |
| Food Sales | | 115,648 | | 115,648 |
| Cocurricular Student Activities | 38,182 | | | 38,182 |
| Other | 62,598 | 22,709 | | 85,307 |
| Total | <u>\$ 13,184,847</u> | <u>138,492</u> | <u>\$ 677,322</u> | <u>\$ 14,000,661</u> |

Adjustments required for the government-wide Statement of Activities decreased these revenues by \$41,727.

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2005**

N. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District participates in shared service arrangements with several other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Region XII, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Teague Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Presented below are the revenues and expenditures attributable to the District's participation.

| | Title I, Part C Education of Migratory Children | ESEA Title IV Safe & Drug Free Schools | ESEA Title II Part A | Title V | Title II - D | Title III |
|----------------------------------|--|---|----------------------------|----------|--------------|-----------|
| Revenues | \$ 2,649 | \$ 7,255 | \$ 65,003 | \$ 3,540 | \$ 7,334 | \$ 7,431 |
| Expenditures | | | | | | |
| Payroll Costs | \$ 377 | \$ 3,774 | \$ 34,559 | \$ 1,712 | \$ 5,890 | \$ 4,634 |
| Contracted Services | 498 | 1,190 | 10,483 | 560 | 882 | 1,174 |
| Supplies and Materials | 107 | 497 | 682 | 66 | 27 | 375 |
| Other Costs | 1,667 | 1,794 | 19,279 | 1,202 | 535 | 1,248 |
| Total Expenditures | \$ 2,649 | \$ 7,255 | \$ 65,003 | \$ 3,540 | \$ 7,334 | \$ 7,431 |
| Percent Attributable to District | 1.1% | 5.2% | 6.6% | 8.6% | 5.6% | 2.7% |

The District participates in shared service arrangements with several other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Freestone-Navarro Bi-County Cooperative, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Teague Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Presented below are the revenues and expenditures attributable to the District's participation.

| | 313 Idea B | 314 Federal Preschool | 331 CATE |
|----------------------------------|---------------|-----------------------------|-------------|
| Revenues | \$ 159,618 | \$ 14,298 | \$ 14,987 |
| Expenditures: | | | |
| Payroll Costs | \$ 120,590 | \$ | \$ 14,901 |
| Contracted Services | 27,026 | | 86 |
| Supplies and Materials | 7,294 | | |
| Others Costs | 4,708 | 14,298 | |
| Total Expenditures | \$ 159,618 | \$ 14,298 | \$ 14,987 |
| Percent Attributable to District | 12.46% | 29.71% | 18.55% |

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2005**

O. CONTRACTUAL INSTRUCTIONAL SERVICES BETWEEN SCHOOLS

Teague Independent School District has exercised Option 4 through the Texas Education Association in accordance with statutory provisions for the education of non-resident students by purchasing weighted average daily attendance ("WADA") credits. Teague Independent School District's payments under these agreements were \$3,767,021 for the school year ended August 31, 2005.

P. DESIGNATED FUND BALANCE

The District has designated \$4,000,000 of the Fund Balance in the General Fund for expenditures related to the purchase of WADA and for required payments to TEA under option 3 of Chapter 41 of the Texas Education Code defining wealth equalization among Texas school districts and \$700,000 for contingencies.

COMBINING SCHEDULES

TEAGUE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2005

| Data Control Codes | 204 ESEA Title IV Safe & Drug Free Schools | 211 ESEA I, A Improving Basic Program | 240 National Breakfast and Lunch Program | 255 ESEA II,A Training and Recruiting | |
|--------------------------------------|---|--|---|--|---------------|
| ASSETS | | | | | |
| 1110 | Cash and Cash Equivalents | \$ - | \$ - | \$ 19,856 | \$ - |
| 1120 | Investments - Current | - | - | 5,505 | - |
| 1220 | Property Taxes - Delinquent | - | - | - | - |
| 1230 | Allowance for Uncollectible Taxes (credit) | - | - | - | - |
| 1240 | Due from Other Governments | - | 9,942 | - | 179 |
| 1000 | Total Assets | <u>\$ -</u> | <u>\$ 9,942</u> | <u>\$ 25,361</u> | <u>\$ 179</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| 2105 | Cash Deficit | \$ - | \$ - | \$ - | \$ - |
| 2110 | Accounts Payable | - | - | 13,732 | - |
| 2160 | Accrued Wages Payable | - | 9,942 | 9,784 | 179 |
| 2180 | Due to Other Governments | - | - | - | - |
| 2300 | Deferred Revenues | - | - | - | - |
| 2000 | Total Liabilities | <u>-</u> | <u>9,942</u> | <u>23,516</u> | <u>179</u> |
| Fund Balances: | | | | | |
| Reserved For: | | | | | |
| 3420 | Retirement of Long-Term Debt | - | - | - | - |
| Unreserved Designated For: | | | | | |
| 3590 | Other Purposes | - | - | 1,845 | - |
| Unreserved and Undesignated: | | | | | |
| 3610 | Reported in Special Revenue Funds | - | - | - | - |
| 3000 | Total Fund Balances | <u>-</u> | <u>-</u> | <u>1,845</u> | <u>-</u> |
| 4000 | Total Liabilities and Fund Balances | <u>\$ -</u> | <u>\$ 9,942</u> | <u>\$ 25,361</u> | <u>\$ 179</u> |

| 269 Title V, Pt.A Innovative Programs | 270 ESEA VI, Pt B Rural & Low Income | 397 Advanced Placement Incentives | 401 Optional Extended Year Program | 404 Student Success Initiative | 411 Technology Allotment | 418 Employee Health Insurance | 429 Other State Special Revenue Funds |
|--|---|--|---|---|--------------------------------|--|--|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 437 | \$ - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | 245 | 1,465 | - | - | - |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 245</u> | <u>\$ 1,465</u> | <u>\$ -</u> | <u>\$ 437</u> | <u>\$ -</u> |
| \$ - | \$ - | \$ - | \$ 245 | \$ 1,465 | \$ - | \$ - | \$ - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | 437 | - |
| - | - | - | - | - | - | - | - |
| - | - | - | 245 | 1,465 | - | 437 | - |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 245</u> | <u>\$ 1,465</u> | <u>\$ -</u> | <u>\$ 437</u> | <u>\$ -</u> |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 245</u> | <u>\$ 1,465</u> | <u>\$ -</u> | <u>\$ 437</u> | <u>\$ -</u> |

TEAGUE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2005

EXHIBIT H-1

| Data Control Codes | 461 Campus Activity Funds | Total Nonmajor Special Revenue Funds | 599 Debt Service Fund | Total Nonmajor Governmental Funds | |
|--------------------------------------|--|---|--------------------------------|--|-------------------|
| ASSETS | | | | | |
| 1110 | Cash and Cash Equivalents | \$ 22,709 | \$ 43,002 | \$ 3,436 | \$ 46,438 |
| 1120 | Investments - Current | - | 5,505 | 652,279 | 657,784 |
| 1220 | Property Taxes - Delinquent | - | - | 87,374 | 87,374 |
| 1230 | Allowance for Uncollectible Taxes (credit) | - | - | (75,142) | (75,142) |
| 1240 | Due from Other Governments | - | 11,831 | - | 11,831 |
| 1000 | Total Assets | <u>\$ 22,709</u> | <u>\$ 60,338</u> | <u>\$ 667,947</u> | <u>\$ 728,285</u> |
| LIABILITIES AND FUND BALANCES | | | | | |
| Liabilities: | | | | | |
| 2105 | Cash Deficit | \$ - | \$ 1,710 | \$ - | \$ 1,710 |
| 2110 | Accounts Payable | - | 13,732 | - | 13,732 |
| 2160 | Accrued Wages Payable | - | 19,905 | - | 19,905 |
| 2180 | Due to Other Governments | - | 437 | - | 437 |
| 2300 | Deferred Revenues | - | - | 12,232 | 12,232 |
| 2000 | Total Liabilities | <u>-</u> | <u>35,784</u> | <u>12,232</u> | <u>48,016</u> |
| Fund Balances: | | | | | |
| Reserved For: | | | | | |
| 3420 | Retirement of Long-Term Debt | - | - | 655,715 | 655,715 |
| Unreserved Designated For: | | | | | |
| 3590 | Other Purposes | - | 1,845 | - | 1,845 |
| Unreserved and Undesignated: | | | | | |
| 3610 | Reported in Special Revenue Funds | 22,709 | 22,709 | - | 22,709 |
| 3000 | Total Fund Balances | <u>22,709</u> | <u>24,554</u> | <u>655,715</u> | <u>680,269</u> |
| 4000 | Total Liabilities and Fund Balances | <u>\$ 22,709</u> | <u>\$ 60,338</u> | <u>\$ 667,947</u> | <u>\$ 728,285</u> |

TEAGUE INDEPENDENT SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2005

| Data Control Codes | 204 ESEA Title IV Safe & Drug Free Schools | 211 ESEA I. A Improving Basic Program | 240 National Breakfast and Lunch Program | 255 ESEA II.A Training and Recruiting | |
|--|--|--|---|--|---------------|
| REVENUES: | | | | | |
| 5700 | Total Local and Intermediate Sources | \$ - | \$ - | \$ 115,783 | \$ - |
| 5800 | State Program Revenues | - | - | 9,670 | - |
| 5900 | Federal Program Revenues | 1,306 | 304,288 | 190,843 | 35,746 |
| 5020 | Total Revenues | <u>1,306</u> | <u>304,288</u> | <u>316,296</u> | <u>35,746</u> |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| 0011 | Instruction | 787 | 225,558 | - | 35,746 |
| 0012 | Instructional Resources & Media Services | - | 56,115 | - | - |
| 0013 | Curriculum & Instructional Staff Development | - | 14,066 | - | - |
| 0021 | Instructional Leadership | - | 8,549 | - | - |
| 0023 | School Leadership | - | - | - | - |
| 0031 | Guidance, Counseling & Evaluation Services | 519 | - | - | - |
| 0033 | Health Services | - | - | - | - |
| 0034 | Student (Pupil) Transportation | - | - | - | - |
| 0035 | Food Services | - | - | 336,779 | - |
| 0041 | General Administration | - | - | - | - |
| 0051 | Plant Maintenance and Operations | - | - | - | - |
| Debt Service: | | | | | |
| 0071 | Debt Service - Principal on long-term debt | - | - | - | - |
| 0072 | Debt Service - Interest on long-term debt | - | - | - | - |
| 0073 | Debt Service - Bond Issuance Cost and Fees | - | - | - | - |
| 6030 | Total Expenditures | <u>1,306</u> | <u>304,288</u> | <u>336,779</u> | <u>35,746</u> |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | - | - | (20,483) | - |
| OTHER FINANCING SOURCES (USES): | | | | | |
| 7901 | Refunding Bonds Issued | - | - | - | - |
| 7915 | Transfers In | - | - | 15,000 | - |
| 7916 | Premium or Discount on Issuance of Bonds | - | - | - | - |
| 8940 | Payment to Bond Refunding Escrow Agent (Use) | - | - | - | - |
| 7080 | Total Other Financing Sources (Uses) | <u>-</u> | <u>-</u> | <u>15,000</u> | <u>-</u> |
| 1200 | Net Change in Fund Balance | - | - | (5,483) | - |
| 0100 | Fund Balance - September 1 (Beginning) | <u>-</u> | <u>-</u> | <u>7,328</u> | <u>-</u> |
| 3000 | Fund Balance - August 31 (Ending) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,845</u> | <u>\$ -</u> |

| 269 Title V, Pt.A Innovative Programs | 270 ESEA VI, Pt B Rural & Low Income | 397 Advanced Placement Incentives | 401 Optional Extended Year Program | 404 Student Success Initiative | 411 Technology Allotment | 418 Employee Health Insurance | 429 Other State Special Revenue Funds |
|--|---|--|---|---|--------------------------------|--|--|
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| - | - | 900 | 3,995 | 14,646 | 30,415 | 80,438 | 11,972 |
| 1,149 | 35,447 | - | - | - | - | - | - |
| <u>1,149</u> | <u>35,447</u> | <u>900</u> | <u>3,995</u> | <u>14,646</u> | <u>30,415</u> | <u>80,438</u> | <u>11,972</u> |
| - | 34,874 | 900 | 3,995 | 14,646 | 27,942 | 52,033 | 9,973 |
| 1,149 | - | - | - | - | 1,658 | 1,875 | - |
| - | - | - | - | - | 815 | - | 1,999 |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | 1,875 | - |
| - | 573 | - | - | - | - | 500 | - |
| - | - | - | - | - | - | 1,000 | - |
| - | - | - | - | - | - | 2,791 | - |
| - | - | - | - | - | - | 7,415 | - |
| - | - | - | - | - | - | 3,000 | - |
| - | - | - | - | - | - | 9,949 | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| <u>1,149</u> | <u>35,447</u> | <u>900</u> | <u>3,995</u> | <u>14,646</u> | <u>30,415</u> | <u>80,438</u> | <u>11,972</u> |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

TEAGUE INDEPENDENT SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2005

| Data Control Codes | 461 Campus Activity Funds | Total Nonmajor Special Revenue Funds | 599 Debt Service Fund | Total Nonmajor Governmental Funds | |
|--|---|---|--------------------------------|--|-------------------|
| REVENUES: | | | | | |
| 5700 | Total Local and Intermediate Sources | \$ 22,709 | \$ 138,492 | \$ 677,322 | \$ 815,814 |
| 5800 | State Program Revenues | - | 152,036 | - | 152,036 |
| 5900 | Federal Program Revenues | - | 568,779 | - | 568,779 |
| 5020 | Total Revenues | <u>22,709</u> | <u>859,307</u> | <u>677,322</u> | <u>1,536,629</u> |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| 0011 | Instruction | - | 406,454 | - | 406,454 |
| 0012 | Instructional Resources & Media Services | - | 60,797 | - | 60,797 |
| 0013 | Curriculum & Instructional Staff Development | - | 16,880 | - | 16,880 |
| 0021 | Instructional Leadership | - | 8,549 | - | 8,549 |
| 0023 | School Leadership | - | 1,875 | - | 1,875 |
| 0031 | Guidance, Counseling & Evaluation Services | - | 1,592 | - | 1,592 |
| 0033 | Health Services | - | 1,000 | - | 1,000 |
| 0034 | Student (Pupil) Transportation | - | 2,791 | - | 2,791 |
| 0035 | Food Services | - | 344,194 | - | 344,194 |
| 0041 | General Administration | - | 3,000 | - | 3,000 |
| 0051 | Plant Maintenance and Operations | - | 9,949 | - | 9,949 |
| Debt Service: | | | | | |
| 0071 | Debt Service - Principal on long-term debt | - | - | 250,000 | 250,000 |
| 0072 | Debt Service - Interest on long-term debt | - | - | 244,858 | 244,858 |
| 0073 | Debt Service - Bond Issuance Cost and Fees | - | - | 94,512 | 94,512 |
| 6030 | Total Expenditures | <u>-</u> | <u>857,081</u> | <u>589,370</u> | <u>1,446,451</u> |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | <u>22,709</u> | <u>2,226</u> | <u>87,952</u> | <u>90,178</u> |
| OTHER FINANCING SOURCES (USES): | | | | | |
| 7901 | Refunding Bonds Issued | - | - | 4,530,000 | 4,530,000 |
| 7915 | Transfers In | - | 15,000 | - | 15,000 |
| 7916 | Premium or Discount on Issuance of Bonds | - | - | 378,739 | 378,739 |
| 8940 | Payment to Bond Refunding Escrow Agent (Use) | - | - | (4,902,816) | (4,902,816) |
| 7080 | Total Other Financing Sources (Uses) | <u>-</u> | <u>15,000</u> | <u>5,923</u> | <u>20,923</u> |
| 1200 | Net Change in Fund Balance | 22,709 | 17,226 | 93,875 | 111,101 |
| 0100 | Fund Balance - September 1 (Beginning) | <u>-</u> | <u>7,328</u> | <u>561,840</u> | <u>569,168</u> |
| 3000 | Fund Balance - August 31 (Ending) | <u>\$ 22,709</u> | <u>\$ 24,554</u> | <u>\$ 655,715</u> | <u>\$ 680,269</u> |

REQUIRED TEA SCHEDULES

TEAGUE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2005

| Last 10 Years Ended August 31 | (1) | (2) | (3) |
|----------------------------------|-------------|--------------|--|
| | Tax Rates | | Assessed/Appraised Value for School Tax Purposes |
| | Maintenance | Debt Service | |
| 1996 and prior years | Various | Various | \$ Various |
| 1997 | 1.38000 | 0.04000 | 365,185,620 |
| 1998 | 1.42000 | 0.02000 | 378,185,620 |
| 1999 | 1.42000 | 0.02000 | 395,778,541 |
| 2000 | 1.48000 | 0.02000 | 339,442,194 |
| 2001 | 1.50000 | 0.16000 | 377,500,421 |
| 2002 | 1.23000 | 0.11000 | 633,344,748 |
| 2003 | 1.40000 | 0.09000 | 748,571,073 |
| 2004 | 1.42000 | 0.09000 | 739,288,285 |
| 2005 (School year under audit) | 1.15000 | 0.05900 | 1,120,016,353 |
| 1000 TOTALS | | | |

| | (10) Beginning Balance 9/1/2004 | (20) Current Year's Total Levy | (31) Maintenance Collections | (32) Debt Service Collections | (40) Entire Year's Adjustments | (50) Ending Balance 8/31/2005 |
|-----------|--|---|------------------------------------|-------------------------------------|---|--|
| \$ | 182,538 | \$ - | \$ 6,274 | \$ 269 | \$ (9,040) | \$ 166,955 |
| | 34,164 | - | 718 | 13 | (809) | 32,624 |
| | 35,995 | - | 1,276 | 18 | (654) | 34,047 |
| | 51,000 | - | 2,638 | 37 | (641) | 47,684 |
| | 47,825 | - | 4,777 | 65 | (709) | 42,274 |
| | 71,518 | - | 6,774 | 723 | (741) | 63,280 |
| | 67,455 | - | 9,387 | 839 | (497) | 56,732 |
| | 137,390 | - | 20,653 | 1,328 | (628) | 114,781 |
| | 259,127 | - | 69,528 | 4,407 | (546) | 184,646 |
| | - | 13,540,998 | 12,603,901 | 646,642 | (1,002) | 289,453 |
| <u>\$</u> | <u>887,012</u> | <u>\$ 13,540,998</u> | <u>\$ 12,725,926</u> | <u>\$ 654,341</u> | <u>\$ (15,267)</u> | <u>\$ 1,032,476</u> |

TEAGUE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2006-2007
GENERAL AND SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 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 | \$ - | \$ 45,287 | \$ 110,255 | \$ 108,792 | \$ - | \$ - | \$ 264,334 |
| 6149 | Leave for Separating Employees in Fn 41 & 53 | - | - | - | - | - | - | - |
| 6149 | Leave - Separating Employees not in 41 & 53 | - | - | - | - | - | - | - |
| 6211 | Legal Services | - | - | 9,323 | - | - | - | 9,323 |
| 6212 | Audit Services | - | - | - | 9,100 | - | - | 9,100 |
| 6213 | Tax Appraisal and Collection | - | 97,338 | - | - | - | - | 97,338 |
| 621X | Other Professional Services | 7,273 | 1,531 | 430 | 14,845 | - | (1) | 24,078 |
| 6220 | Tuition and Transfer Payments | - | - | - | - | - | - | - |
| 6230 | Education Service Centers | - | - | - | - | - | - | - |
| 6240 | Contr. Maint. and Repair | - | - | - | - | - | - | - |
| 6250 | Utilities | - | - | - | - | - | - | - |
| 6260 | Rentals | - | - | - | - | - | - | - |
| 6290 | Miscellaneous Contr. | - | - | - | - | - | - | - |
| 6320 | Textbooks and Reading | - | - | - | - | - | - | - |
| 6330 | Testing Materials | - | - | - | - | - | - | - |
| 63XX | Other Supplies Materials | - | 15,118 | 7,833 | 11,669 | - | 1 | 34,621 |
| 6410 | Travel, Subsistence, Stipends | 7,347 | 263 | 2,993 | 1,648 | - | - | 12,251 |
| 6420 | Ins. and Bonding Costs | 10,116 | 371 | - | - | - | - | 10,487 |
| 6430 | Election Costs | 202 | - | - | - | - | - | 202 |
| 6490 | Miscellaneous Operating | 3,215 | 535 | 5,679 | 6,690 | - | - | 16,119 |
| 6500 | Debt Service | - | - | - | - | - | - | - |
| 6600 | Capital Outlay | - | - | - | - | - | - | - |
| 6000 | TOTAL | \$ 28,153 | \$ 160,443 | \$ 136,513 | \$ 152,744 | \$ - | \$ - | \$ 477,853 |

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 13,112,229

LESS: Deductions of Unallowable Costs

FISCAL YEAR

| | | |
|--|---------|-----------|
| Total Capital Outlay (6600) | (10) \$ | 711,657 |
| Total Debt & Lease(6500) | (11) | - |
| Plant Maintenance (Function 51, 6100-6400) | (12) | 1,144,129 |
| Food (Function 35, 6341 and 6499) | (13) | 136,832 |
| Stipends (6413) | (14) | - |
| Column 4 (above) - Total Indirect Cost | | 152,744 |

SubTotal:

2,145,362

Net Allowed Direct Cost

\$ 10,966,867

CUMULATIVE

| | | |
|---|---------|------------|
| Total Cost of Buildings before Depreciation (1520) | (15) \$ | 14,139,069 |
| Historical Cost of Building over 50 years old | (16) \$ | - |
| Amount of Federal Money in Building Cost (Net of #16) | (17) \$ | - |
| Total Cost of Furniture & Equipment before Depreciation (1530 & 1540) | (18) \$ | 1,158,955 |
| Historical Cost of Furniture & Equipment over 16 years old | (19) \$ | 127,106 |
| Amount of Federal Money in Furniture & Equipment (Net of #19) | (20) \$ | - |

(8) NOTE A: No amounts in Function 53 expenditures are included in this report on administrative costs.

TEAGUE INDEPENDENT SCHOOL DISTRICT
 FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
 GENERAL FUND AS OF AUGUST 31, 2005

UNAUDITED

| | | | |
|----|---|-----------|-----------------------|
| 1 | Total General Fund Balance as of 8/31/05 (Exhibit C-1 object 3000 for the General Fund Only) | | \$ 9,132,768 |
| 2 | Total Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund Only) | \$ - | |
| 3 | Total Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund Only) | 4,700,000 | |
| 4 | Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.) | 6,287,608 | |
| 5 | Estimate of one month's average cash disbursements during the regular school session (9/1/05-5/31/06). | 2,084,089 | |
| 6 | Estimate of delayed payments from state sources (58xx) including August payment delays | 51,229 | |
| 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) | 10,121 | |
| 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>13,133,047</u> |
| 11 | Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10) | | <u>\$ (4,000,279)</u> |

TEAGUE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2005

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) | |
|--|---|--------------|--------------------------------|--|------------|
| | Original | Final | | | |
| REVENUES: | | | | | |
| 5700 | Total Local and Intermediate Sources | \$ 101,835 | \$ 101,835 | \$ 115,783 | \$ 13,948 |
| 5800 | State Program Revenues | 2,001 | 2,001 | 9,670 | 7,669 |
| 5900 | Federal Program Revenues | 128,500 | 128,500 | 190,843 | 62,343 |
| 5020 | Total Revenues | 232,336 | 232,336 | 316,296 | 83,960 |
| EXPENDITURES: | | | | | |
| 0035 | Food Services | 356,074 | 356,074 | 336,779 | 19,295 |
| 6030 | Total Expenditures | 356,074 | 356,074 | 336,779 | 19,295 |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | (123,738) | (123,738) | (20,483) | 103,255 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| 7915 | Transfers In | - | - | 15,000 | 15,000 |
| 7080 | Total Other Financing Sources (Uses) | - | - | 15,000 | 15,000 |
| 1200 | Net Change in Fund Balances | (123,738) | (123,738) | (5,483) | 118,255 |
| 0100 | Fund Balance - September 1 (Beginning) | 7,328 | 7,328 | 7,328 | - |
| 3000 | Fund Balance - August 31 (Ending) | \$ (116,410) | \$ (116,410) | \$ 1,845 | \$ 118,255 |

TEAGUE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2005

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) | |
|--|---|------------|--------------------------------|--|-------------|
| | Original | Final | | | |
| REVENUES: | | | | | |
| 5700 | Total Local and Intermediate Sources | \$ 588,000 | \$ 588,000 | \$ 677,322 | \$ 89,322 |
| 5020 | Total Revenues | 588,000 | 588,000 | 677,322 | 89,322 |
| EXPENDITURES: | | | | | |
| 0071 | Debt Service - Principal on long-term debt | 250,000 | 250,000 | 250,000 | - |
| 0072 | Debt Service - Interest on long-term debt | 335,694 | 335,694 | 244,858 | 90,836 |
| 0073 | Debt Service - Bond Issuance Cost and Fees | 1,200 | 20,200 | 94,512 | (74,312) |
| 6030 | Total Expenditures | 586,894 | 605,894 | 589,370 | 16,524 |
| 1100 | Excess (Deficiency) of Revenues Over (Under) Expenditures | 1,106 | (17,894) | 87,952 | 105,846 |
| OTHER FINANCING SOURCES (USES): | | | | | |
| 7901 | Refunding Bonds Issued | - | - | 4,530,000 | 4,530,000 |
| 7916 | Premium or Discount on Issuance of Bonds | - | - | 378,739 | 378,739 |
| 8940 | Payment to Bond Refunding Escrow Agent (Use) | - | - | (4,902,816) | (4,902,816) |
| 7080 | Total Other Financing Sources (Uses) | - | - | 5,923 | 5,923 |
| 1200 | Net Change in Fund Balances | 1,106 | (17,894) | 93,875 | 111,769 |
| 0100 | Fund Balance - September 1 (Beginning) | 561,840 | 561,840 | 561,840 | - |
| 3000 | Fund Balance - August 31 (Ending) | \$ 562,946 | \$ 543,946 | \$ 655,715 | \$ 111,769 |

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**

1300 S. University Dr.
Suite 308
Fort Worth, Texas
76107-5737

Phone: 817-338-1115
Fax: 817-338-1163

www.sga-cpas.com

Independent Auditor's Report

Board of Trustees
Teague Independent School District
800 Main St.
Teague, Texas 75860:

Members of the Board:

We have audited the financial statements of Teague Independent School District as of and for the year ended August 31, 2005, and have issued our report thereon dated October 18, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Teague Independent School 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 an opinion 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 reportable 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 caused by error or fraud 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Teague Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Teague Independent School District
Board of Trustees

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

Stovall, Grandey & Allen, LLP

STOVALL, GRANDEY & ALLEN, LLP
Fort Worth, Texas
October 18, 2005



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

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Independent Auditor's Report

Board of Trustees
Teague Independent School District
800 Main St.
Teague, Texas 75860

Members of the Board:

Compliance

We have audited the compliance of Teague Independent School District with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2005. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Teague Independent School District's administrators. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Teague Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2005.

Internal Control Over Compliance

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

Teague Independent School District
Board of Trustees

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 reportable 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 caused by error or fraud 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 operation that we consider to be material weaknesses.

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

Stovall, Grandey & Allen, LLP

STOVALL, GRANDEY & ALLEN, LLP
Fort Worth, Texas
October 18, 2005

**TEAGUE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2005**

Type of Report on Financial Statements

Unqualified

Reportable Conditions

None

Material Weaknesses Involving Reportable Conditions

None

Noncompliance material to the financial statements

None

Type of Report on Compliance with major programs

Unqualified opinion

Findings and Questioned costs for federal awards as defined in Section __.510(a), OMB A-133

None

Dollar Threshold Considered Between Type A and Type B Federal Programs

\$300,000

Low Risk Auditee Statements

The District was classified as a low-risk auditee in the context of OMB Circular A-133

Major Federal Program

National School Lunch Program – CFDA 10.555

National Breakfast Program – CFDA 10.553

Commodity Supplemental Food Program – CFDA 10.565

Pass-through Entity

Texas Education Agency

**TEAGUE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2005**

The prior year report disclosed no findings.

TEAGUE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2005

| (1) | (2) | (3) | (4) |
|---|---------------------------|--|-------------------------|
| FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
| U.S. DEPARTMENT OF EDUCATION | | | |
| <u>Passed Through State Department of Education</u> | | | |
| ESEA Title I Part A - Improving Basic Programs | 84.010A | 06610101081904 | \$ 9,942 |
| ESEA Title I Part A - Improving Basic Programs | 84.010A | 05610101081904 | 294,346 |
| Total CFDA Number 84.010A | | | 304,288 |
| ESEA Title IV - Safe and Drug-Free Schools | 84.186A | 05691001113901 | 1,306 |
| Title V, Part A - Innovative Programs | 84.298 | 05685001113901 | 1,149 |
| ESEA, Title VI, Part B - Rural & Low Income Prog. | 84.358B | 05696001081904 | 35,447 |
| ESEA Title II, Part A, Teacher & Principal Training | 84.367A | 06694501113901 | 179 |
| ESEA Title II, Part A, Teacher & Principal Training | 84.367A | 05694501113901 | 35,567 |
| Total CFDA Number 84.367A | | | 35,746 |
| Total Passed Through State Department of Education | | | \$ 377,936 |
| TOTAL DEPARTMENT OF EDUCATION | | | \$ 377,936 |
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| <u>Direct Programs</u> | | | |
| Commodity Supplemental Food Program | 10.565 | | \$ 14,851 |
| Total Direct Programs | | | \$ 14,851 |
| <u>Passed Through the State Department of Agriculture</u> | | | |
| National School Lunch Program* | 10.555 | | \$ 129,850 |
| National School Breakfast Program* | 10.553 | | 46,142 |
| Total Passed Through the State Department of Agriculture | | | \$ 175,992 |
| TOTAL DEPARTMENT OF AGRICULTURE | | | \$ 190,843 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ 568,779 |

*Clustered Programs as required by Compliance Supplement March, 2004

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2005**

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

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

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

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