

**TEAGUE INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

AUGUST 31, 2006

**TEAGUE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2006**

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**TEAGUE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2006**

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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, 2006 at a meeting of the Board of Trustees of such school district on the 19 day of December, 2006.

(signed by Jeff Gonzales, President of the Board)

(signed by Lovie Whyte, Board Secretary)

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

Board of Trustees
Teague Independent School District
420 North 10th Street
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, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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 opinions.

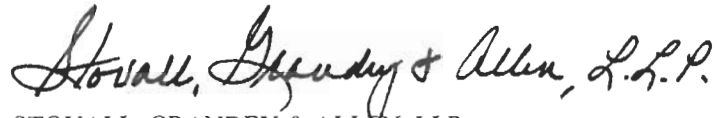
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund, Debt Service Fund and Special Revenue Funds 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 November 29, 2006, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the 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 (Fund Balance and Cash Flow Calculation Worksheet) 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
Fort Worth, Texas
November 29, 2006

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, 2006. 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 activities.

Net assets of the District's governmental activities increased from \$14,875,613 to \$18,125,433. 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 \$12,282,338 at August 31, 2006.

Table I

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

	Governmental Activities	
	2006	2005
Current and Other Assets	\$ 14,454	\$ 10,489
Capital Assets	10,884	10,969
Total Assets	25,338	21,458
Other Liabilities	1,807	907
Long-term Liabilities	5,405	5,676
Total Liabilities	7,212	6,583
Net Assets		
Invested in Capital Assets, net of related debt	5,138	4,968
Restricted	705	656
Unrestricted	12,282	9,251
Total Net Assets	\$ 18,125	\$ 14,875

Table II
CHANGES IN NET ASSETS
(in thousands)

	Governmental Activities	
	2006	2005
Revenues:		
Program Revenues:		
Charges for Services	\$ 206	\$ 234
Operating grants and contributions	1,057	1,029
General Revenues:		
Maintenance and operations taxes	21,401	12,688
Debt service taxes	571	651
State aid - formula grants	584	571
Investment Earnings	743	285
Miscellaneous	148	101
Total Revenue	24,710	15,559
Expenses:		
Instruction, curriculum and media services	5,452	4,850
Instructional and school leadership	635	848
Student support services	409	467
Child nutrition	443	405
Co curricular/Extracurricular activities	584	497
General administration	571	501
Plant maintenance, security & data processing	1,363	1,276
Community services	41	19
Debt services	281	304
Contracted instructional services	11,395	3,767
Facilities acquisition	29	-
Incremental cost associated with Chapter 41	-	38
Payments to Fiscal Agent	257	265
Total Expenses	21,460	13,237
Increase in net assets	3,250	2,322
Net assets at 9/1/05	14,875	12,553
Net assets at 8/31/06	\$ 18,125	\$ 14,875

Although property values increased, the District was forced to increase the property taxes from \$1.209 to \$1.54. This is largely due to the Chapter 41 (Robin Hood) payment the District must make. Next year the rate will decrease to \$1.38 as a result of House Bill I. Approximately \$0.80 of next year's tax will go toward the Robin Hood payment.

The cost of all governmental activities this year was \$21.4 million compared to \$13.2 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 \$21.9 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 \$12.9 million, which is slightly higher than last year's total of \$9.8 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 \$12.1 million reported on page 3 differs from the General Fund's budgetary fund balance of \$5.3 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 2006, the District had \$16 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 \$479 thousand above last year.

The District's fiscal year 2007 capital budget calls for additional expenditures of approximately \$200,000 for an addition of a girl's locker/shower room on the stand alone high school gym. The District may amend the budget to include a \$2 million addition to the elementary 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.

The District's fiscal year 2007 capital budget calls for additional expenditures of approximately \$200,000 for an additional 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 \$5.7 million in bonds outstanding versus \$6 million last year, a decrease of 5.3%. 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 2007 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 2007. Amounts available for appropriation in the General Fund budget are \$24.9 million, an increase of 30% over the final 2006 budget of \$19.3 million. This increase in the budget is primarily due to the approximately \$14.3 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 add to the existing high school gym and plans are being discussed to add eight classrooms to the elementary due to the increase in enrollment. 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 2007. More importantly, this will have been accomplished in spite of unfunded mandates, and without adding additional debt.

ACADEMIC EXCELLENCE INDICATOR SYSTEM REPORT

The following ratings were listed in the 2005-2006 Academic Excellence Indicator System Report:

Teague High School	Acceptable
Teague Junior High School	Acceptable
Teague Intermediate School	Recognized
Teague Elementary School	Exemplary

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
2002-03	14.01%	11.94%
2003-04	14.01%	11.25%
2004-05	14.01%	11.93%
2005-06	14.01%	12.29%
2006-07*	14.01%	12.00%

*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. 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
Road Construction/Improvement	2006	\$ 380,000
2 Elementary Classrooms	2006	112,475
High School Classrooms	2005	52,347
Intermediate Classrooms	2005	48,160
Intermediate Gym	2005	524,952
Baseball Field Restrooms	2005	30,684
Building Renovations	2004	362,835
Maintenance Storage Building	2003	44,208
Refurbished Auditorium	2003	50,013
Sports Facilities Lighting	2002	82,000
Ag-Shop Addition	2002	127,000

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.

BASIC FINANCIAL STATEMENTS

TEAGUE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2006

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 70,201
1120 Current Investments	13,997,346
1220 Property Taxes Receivable (Delinquent)	1,219,707
1230 Allowance for Uncollectible Taxes	(1,076,391)
1240 Due from Other Governments	185,820
1420 Capitalized Bond and Other Debt Issuance Costs	53,956
Capital Assets:	
1510 Land	316,425
1520 Buildings, Net	9,859,441
1530 Furniture and Equipment, Net	538,222
1580 Construction in Progress	169,283
1000 Total Assets	25,334,010
LIABILITIES	
2110 Accounts Payable	49,869
2160 Accrued Wages Payable	335,657
2180 Due to Other Governments	992,467
2200 Accrued Expenses	85,244
Noncurrent Liabilities	
2501 Due Within One Year	340,000
2502 Due in More Than One Year	5,405,340
2000 Total Liabilities	7,208,577
NET ASSETS	
3200 Invested in Capital Assets, Net of Related Debt	5,138,031
3850 Restricted for Debt Service	705,064
3900 Unrestricted Net Assets	12,282,338
3000 Total Net Assets	\$ 18,125,433

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

TEAGUE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2006

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Expenses	3	4	6	Net (Expense) Revenue and Changes in Net Assets
Charges for Services	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 5,194,148	\$ 36,940	\$ 637,106	\$ (4,520,102)
12 Instructional Resources and Media Services	258,199	-	51,511	(206,688)
13 Curriculum and Instructional Staff Development	74,229	-	1,689	(72,540)
21 Instructional Leadership	69,171	-	10,387	(58,784)
23 School Leadership	491,213	10,317	25,496	(455,400)
31 Guidance, Counseling and Evaluation Services	164,344	-	9,228	(155,116)
33 Health Services	62,280	-	4,268	(58,012)
34 Student (Pupil) Transportation	183,012	6,658	11,204	(165,150)
35 Food Services	443,329	131,177	236,303	(75,849)
36 Cocurricular/Extracurricular Activities	583,578	19,258	16,862	(547,458)
41 General Administration	570,660	1,376	15,610	(553,674)
51 Plant Maintenance and Operations	1,311,645	-	35,957	(1,275,688)
52 Security and Monitoring Services	7,006	-	1,611	(5,395)
53 Data Processing Services	44,639	-	-	(44,639)
61 Community Services	41,150	-	167	(40,983)
72 Debt Service - Interest on Long Term Debt	272,410	-	-	(272,410)
73 Debt Service - Bond Issuance Cost and Fees	8,590	-	-	(8,590)
81 Facilities Acquisition and Construction	28,894	-	-	(28,894)
91 Contracted Instructional Services Between Schools	11,395,370	-	-	(11,395,370)
93 Payments to Fiscal Agent/Member Districts of SSA	256,383	-	-	(256,383)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 21,460,250	\$ 205,726	\$ 1,057,399	(20,197,125)

Data Control Codes	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		21,401,327
DT	Property Taxes, Levied for Debt Service		570,779
SF	State Aid - Formula Grants		583,803
IE	Investment Earnings		742,867
MI	Miscellaneous Local and Intermediate Revenue		148,169
TR	Total General Revenues		<u>23,446,945</u>
CN	Change in Net Assets		3,249,820
NB	Net Assets--Beginning		<u>14,875,613</u>
NE	Net Assets--Ending		<u>\$ 18,125,433</u>

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

TEAGUE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2006

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110	\$ 26,560	\$ 46,719	\$ 73,279
1120	13,288,089	709,257	13,997,346
1220	1,136,390	83,317	1,219,707
1230	(1,002,864)	(73,527)	(1,076,391)
1240	168,909	16,911	185,820
1000	<u>\$ 13,617,084</u>	<u>\$ 782,677</u>	<u>\$ 14,399,761</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2105	\$ -	\$ 3,865	\$ 3,865
2110	32,973	16,896	49,869
2160	310,174	25,483	335,657
2180	992,467	-	992,467
2300	133,526	9,790	143,316
2000	<u>\$ 1,469,140</u>	<u>\$ 56,034</u>	<u>\$ 1,525,174</u>
Fund Balances:			
Reserved For:			
3420	\$ -	\$ 705,064	\$ 705,064
Unreserved Designated For:			
3510	700,000	-	700,000
3520	-	5,805	5,805
3590	7,000,000	-	7,000,000
Unreserved and Undesignated:			
3600	4,447,944	-	4,447,944
3610	-	15,774	15,774
3000	<u>\$ 12,147,944</u>	<u>\$ 726,643</u>	<u>\$ 12,874,587</u>
4000	<u>\$ 13,617,084</u>	<u>\$ 782,677</u>	<u>\$ 14,399,761</u>

The notes to the financial statements 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, 2006

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	12,874,587
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets. The net effect of this consolidation is to increase net assets.		787
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$15,614,449 and the accumulated depreciation was \$4,645,438. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net assets.		5,026,336
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2006 capital outlays and debt principal payments is to increase net assets.		804,013
4 The 2006 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(564,653)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, 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.		(15,637)
19 Net Assets of Governmental Activities	\$	18,125,433

The notes to the financial statements 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, 2006

Data Control Codes		10 General Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700	Total Local and Intermediate Sources	\$ 22,341,509	\$ 728,229	\$ 23,069,738
5800	State Program Revenues	923,575	151,673	1,075,248
5900	Federal Program Revenues	-	565,954	565,954
5020	Total Revenues	23,265,084	1,445,856	24,710,940
EXPENDITURES:				
Current:				
0011	Instruction	4,434,692	405,299	4,839,991
0012	Instructional Resources and Media Services	192,053	45,771	237,824
0013	Curriculum and Instructional Staff Development	65,348	575	65,923
0021	Instructional Leadership	53,551	8,460	62,011
0023	School Leadership	475,451	2,536	477,987
0031	Guidance, Counseling and Evaluation Services	158,031	1,249	159,280
0033	Health Services	56,493	1,014	57,507
0034	Student (Pupil) Transportation	220,669	2,071	222,740
0035	Food Services	89,060	368,785	457,845
0036	Cocurricular/Extracurricular Activities	515,302	7,358	522,660
0041	General Administration	529,821	2,825	532,646
0051	Plant Maintenance and Operations	1,283,970	9,874	1,293,844
0052	Security and Monitoring Services	5,646	1,360	7,006
0053	Data Processing Services	44,639	-	44,639
0061	Community Services	30,896	-	30,896
Debt Service:				
0071	Debt Service - Principal on Long Term Debt	-	325,000	325,000
0072	Debt Service - Interest on Long Term Debt	-	243,305	243,305
0073	Debt Service - Bond Issuance Cost and Fees	-	2,000	2,000
Capital Outlay:				
0081	Facilities Acquisition and Construction	414,533	-	414,533
Intergovernmental:				
0091	Contracted Instructional Services Between Schools	11,395,370	-	11,395,370
0093	Payments to Fiscal Agent/Member Districts of SSA	256,383	-	256,383
6030	Total Expenditures	20,221,908	1,427,482	21,649,390
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	3,043,176	18,374	3,061,550
OTHER FINANCING SOURCES (USES):				
7915	Transfers In	-	28,000	28,000
8911	Transfers Out (Use)	(28,000)	-	(28,000)
7080	Total Other Financing Sources (Uses)	(28,000)	28,000	-
1200	Net Change in Fund Balances	3,015,176	46,374	3,061,550
0100	Fund Balance - September 1 (Beginning)	9,132,768	680,269	9,813,037
3000	Fund Balance - August 31 (Ending)	\$ 12,147,944	\$ 726,643	\$ 12,874,587

The notes to the financial statements 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, 2006

Total Net Change in Fund Balances - Governmental Funds	\$	3,061,550
 The District uses internal service funds to charge the costs of certain activities, such as self-insurance, to appropriate functions in other funds. The net income of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase net assets.		360
 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 2006 capital outlays and debt principal payments is to increase net assets.		804,013
 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.		(564,653)
 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.		(51,450)
 Change in Net Assets of Governmental Activities	<u>\$</u>	<u>3,249,820</u>

The notes to the financial statements 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, 2006

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	\$ 16,586,000	\$ 16,586,000	\$ 22,341,509	\$ 5,755,509
5800 State Program Revenues	-	-	923,575	923,575
5020 Total Revenues	16,586,000	16,586,000	23,265,084	6,679,084
EXPENDITURES:				
Current:				
0011 Instruction	4,979,617	4,896,111	4,434,692	461,419
0012 Instructional Resources and Media Services	282,976	274,852	192,053	82,799
0013 Curriculum and Instructional Staff Development	57,838	75,291	65,348	9,943
0021 Instructional Leadership	63,829	63,829	53,551	10,278
0023 School Leadership	519,570	514,563	475,451	39,112
0031 Guidance, Counseling and Evaluation Services	170,360	170,860	158,031	12,829
0033 Health Services	58,155	58,855	56,493	2,362
0034 Student (Pupil) Transportation	358,764	386,764	220,669	166,095
0035 Food Services	59,070	89,120	89,060	60
0036 Cocurricular/Extracurricular Activities	529,540	563,930	515,302	48,628
0041 General Administration	600,130	592,155	529,821	62,334
0051 Plant Maintenance and Operations	1,300,530	1,336,448	1,283,970	52,478
0052 Security and Monitoring Services	8,345	8,345	5,646	2,699
0053 Data Processing Services	35,000	49,000	44,639	4,361
0061 Community Services	21,375	35,375	30,896	4,479
Debt Service:				
0073 Debt Service - Bond Issuance Cost and Fees	1,500	-	-	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	653,200	535,300	414,533	120,767
Intergovernmental:				
0091 Contracted Instructional Services Between Schools	8,800,000	10,429,000	11,395,370	(966,370)
0093 Payments to Fiscal Agent/Member Districts of SSA	257,000	257,000	256,383	617
6030 Total Expenditures	18,756,799	20,336,798	20,221,908	114,890
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,170,799)	(3,750,798)	3,043,176	6,793,974
OTHER FINANCING SOURCES (USES):				
8911 Transfers Out (Use)	-	(35,000)	(28,000)	7,000
7080 Total Other Financing Sources (Uses)	-	(35,000)	(28,000)	7,000
1200 Net Change in Fund Balances	(2,170,799)	(3,785,798)	3,015,176	6,800,974
0100 Fund Balance - September 1 (Beginning)	9,132,768	9,132,768	9,132,768	-
3000 Fund Balance - August 31 (Ending)	\$ 6,961,969	\$ 5,346,970	\$ 12,147,944	\$ 6,800,974

The notes to the financial statements 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	
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$	787
Total Assets		787
NET ASSETS		
Unrestricted Net Assets		787
Total Net Assets	\$	787

The notes to the financial statements 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, 2006

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 18,104
Total Operating Revenues	18,104
OPERATING EXPENSES:	
Professional and Contracted Services	17,744
Total Operating Expenses	17,744
Operating Income	360
Total Net Assets - September 1 (Beginning)	427
Total Net Assets - August 31 (Ending)	\$ 787

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

TEAGUE INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2006

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 18,104
Cash Payments for Insurance Claims	(17,744)
Net Cash Provided by Operating Activities	<u>360</u>
Net Increase in Cash and Cash Equivalents	360
Cash and Cash Equivalents at Beginning of the Year:	<u>427</u>
Cash and Cash Equivalents at the End of the Year:	<u>\$ 787</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided By (Used For) Operating Activities:</u>	
Operating Income (Loss):	<u>\$ 360</u>

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

TEAGUE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2006

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 54,391
Total Assets	<u>\$ 54,391</u>
LIABILITIES	
Due to Student Groups	\$ 54,391
Total Liabilities	<u>\$ 54,391</u>

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

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2006**

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 ("GASB") and other authoritative sources identified in Statement on Auditing Standards No. 69 of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's Financial Accountability System Resource Guide (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

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 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 District's nonfiduciary activities with most of the interfund activities removed. Governmental activities include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. 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 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, 2006**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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. The District does not have any proprietary funds.

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

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

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

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

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, 2006**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

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:

- **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.
- **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.

Proprietary Funds:

- **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:

- **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.
3. 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.

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2006**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. OTHER ACCOUNTING POLICIES, continued

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

6. 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.

7. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.
8. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first unless unrestricted assets will have to be returned because they were not used.

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2006**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

E. OTHER ACCOUNTING POLICIES, continued

9. The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency ("TEA") in the *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>
Non-depreciable Assets				
Land	\$ 316,425	\$ -	\$ 316,425	
Total Non-depreciable Assets	<u>316,425</u>	<u>-</u>	<u>316,425</u>	
Depreciable Assets				
Buildings	14,139,069	4,018,653	10,120,416	
Furniture and Equipment	1,158,955	626,785	532,170	
Total Depreciable Assets	<u>15,298,024</u>	<u>4,645,438</u>	<u>10,652,586</u>	
Total Capital Assets	<u>\$ 15,614,449</u>	<u>\$ 4,645,438</u>	<u>\$ 10,969,011</u>	\$ 10,969,011
Deferred Expense Beginning of Year				57,965
Long-term Liabilities at the Beginning of the year			<u>Payable at the Beginning of the Year</u>	
Bonds Payable			<u>\$ 6,000,640</u>	<u>(6,000,640)</u>
Net Adjustment to Net Assets				<u>\$ 5,026,336</u>

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2006**

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

Exhibits C-2 and C-4 provides 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 those reconciliations 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	\$ 221,852		
Furniture and Equipment	87,878		
Construction in Progress	<u>169,283</u>		
Total Capital Outlay	<u>479,013</u>	\$ 479,013	\$ 479,013
<u>Debt Principal Payments</u>			
Bond Principal	325,000	<u>325,000</u>	<u>325,000</u>
Total		<u>\$ 804,013</u>	<u>\$ 804,013</u>

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2006**

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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 Exhibits C-2 and 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:

	<u>Amount</u>	<u>Adjustments to Changes in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	\$ 332,958	\$ (332,958)	\$ -
Uncollected taxes (assumed collectible) from Current Year Levy	53,339	53,339	53,339
Uncollected Taxes (assumed collectible) from Prior Year Levy	89,977	-	89,977
Adjustment to Prior Year Estimate of Collectible Taxes	278,389	278,389	-
		(1,230)	143,316
<u>Adjustments to Expenses and Liabilities</u>			
Estimated Liability for Workers' Compensation Claims	75,074	-	(75,074)
Increase in Estimated Claims from Prior Year	14,525	(14,525)	-
Decrease in Accrued Expense from Prior Year	59,714	59,714	59,714
Amortize Bond Premiums	48,184	48,184	-
Amortize Bond Issuance Costs	4,009	(4,009)	(4,009)
Amortize Bond Discount	2,581	(2,581)	(2,581)
Amortize Deferred Refunding Loss	71,353	(71,353)	(71,353)
Accrue Interest Expense on 2005 Bond Issue	10,170	(10,170)	(10,170)
Accretion on Capital Appreciation Bonds	55,480	(55,480)	(55,480)
		<u>\$ (51,450)</u>	<u>\$ (15,637)</u>

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2006**

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board 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 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, 2006**

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, 2006, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$70,201 and the bank balance was \$353,596.

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, 2006.

Name	Carrying Amount	Market Value
Tex Pool	\$ 9,075,886	\$ 9,075,886
Lone Star	4,921,460	4,921,460
	\$ 13,997,346	\$ 13,997,346

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, 2006**

IV. DETAILED NOTES ON ALL FUNDS, continued

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.

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2006**

IV. DETAILED NOTES ON ALL FUNDS, continued

A. DEPOSITS AND INVESTMENTS, continued

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, 2006, TexPool's investments credit quality rating was AAAM (Standard & Poor's). Lone Star Investment Pool only in investments authorized under the Public Funds Investment Act. As of August 31, 2006, Lone Star Investment Pools investment credit rating was AAA (Standard & Poor's).

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, 2006 consisted of the following amounts:

Transfer to Special Revenue Food Service Fund from:	
General Fund	<u>\$ 28,000</u>

There were no interfund balances at August 31, 2006.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2006, were as follows:

	Property Taxes	Due From Other Governments	Total Receivables
Governmental Activities			
General Fund	\$ 1,136,390	\$ 168,909	\$ 1,305,299
Non-major Governmental Funds	83,317	16,911	100,228
Total – Governmental Activities	\$ 1,219,707	\$ 185,820	\$ 1,405,527
Amounts not scheduled for collection during the subsequent year	\$ 1,076,391	\$ -	\$ 1,076,391

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2006**

IV. DETAILED NOTES ON ALL FUNDS, continued

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES, continued

Payables at August 31, 2006, were as follows:

	Cash Deficit	Accounts Payable	Salaries and Benefits	Due to Other Governments	Total Payables
Governmental Activities					
General Fund	\$ -	\$ 32,973	\$ 310,174	\$ 992,467	\$ 1,335,614
Non-major Governmental Funds	3,865	16,896	25,483	-	46,244
Total – Governmental Activities	<u>\$ 3,865</u>	<u>\$ 49,869</u>	<u>\$ 335,657</u>	<u>\$ 992,467</u>	<u>\$ 1,381,858</u>

Amounts not scheduled for
payment during the subsequent
year

\$ -	\$ -	\$ -	\$ -	\$ -
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F. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended August 31, 2006, was as follows:

	Primary Government			Ending Balance
	Beginning Balance	Additions	Retirements	
Governmental Activities:				
Non-depreciable Assets				
Land	\$ 316,425	\$ -	-	\$ 316,425
Construction in Progress	-	169,283	-	169,283
Total Non-depreciable Assets	<u>316,425</u>	<u>-</u>	<u>-</u>	<u>485,708</u>
Depreciable Assets				
Buildings and Improvements	14,139,069	221,852	-	14,360,921
Furniture and Equipment	1,158,955	87,878	-	1,246,833
Total Depreciable Assets	<u>15,298,024</u>	<u>309,730</u>	<u>-</u>	<u>15,607,754</u>
Totals at Historic Cost	<u>15,614,449</u>	<u>479,013</u>	<u>-</u>	<u>16,093,462</u>
Less Accumulated Depreciation:				
Buildings and Improvements	4,018,653	482,827	-	4,501,480
Furniture and Equipment	626,787	81,826	-	708,613
Total Accumulated Depreciation	<u>4,645,440</u>	<u>564,653</u>	<u>-</u>	<u>5,210,093</u>
Governmental Activities Capital Assets, Net	<u>\$ 10,969,009</u>	<u>\$ (85,640)</u>	<u>\$ -</u>	<u>\$ 10,883,369</u>

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2006**

IV. DETAILED NOTES ON ALL FUNDS, continued

F. CAPITAL ASSET ACTIVITY, continued

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 359,430
Instructional Resources and Media Services	20,375
Curriculum Development	8,306
Instructional Leadership	7,160
School Leadership	14,481
Guidance, Counseling and Evaluation Services	5,064
Health Services	4,773
Student (Pupil) Transportation	17,656
Food Services	11,180
Cocurricular/Extracurricular Activities	63,429
General Administration	23,489
Plant Maintenance and Operations	19,056
Community Services	10,254
Total Depreciation Expense	<u>\$ 564,653</u>

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, 2006 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due in One Year
Governmental Activities:					
General Obligation Bonds					
Series 2000	\$ 1,490,000	\$ -	\$ 265,000	\$ 1,225,000	\$ 280,000
Series 2005	4,235,000	-	60,000	4,175,000	60,000
CAB 2005	295,000	-	-	295,000	-
	6,020,000	-	325,000	5,695,000	340,000
CAB Accretion	9,299	55,480		64,779	-
Series 2005 Premium	365,693	-	59,714	305,979	-
Less Deferred Amounts:					
For issuance discounts	(37,590)	-	(2,581)	(35,009)	-
For refunding loss	(356,762)	-	(71,353)	(285,409)	-
	<u>\$ 6,000,640</u>	<u>\$ 55,480</u>	<u>\$ 310,780</u>	<u>\$ 5,745,340</u>	<u>\$ 340,000</u>

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2006**

IV. DETAILED NOTES ON ALL FUNDS, continued

G. BONDS PAYABLE, continued

Debt service requirements are as follows:

Year Ended August 31	Total Principal	Total Interest	Total
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	145,000	422,165	567,165
2012-2016	1,950,000	910,825	2,860,825
2017-2021	2,115,000	175,678	2,290,678
Total	<u>\$ 5,695,000</u>	<u>\$ 2,290,729</u>	<u>\$ 7,985,729</u>

H. DEFINED BENEFIT PENSION PLAN

Plan Description. The 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 2004, 2005 and 2006 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, 2004, 2005 and 2006 were \$357,501, \$351,011 and \$384,602, respectively. State contributions to TRS made on behalf of the District's employees for the years ended August 31, 2004, 2005 and 2006 were \$344,417, \$360,042 and \$342,349, respectively. The District paid additional state contributions for the years ended August 31, 2004, 2005 and 2006 in the amount of \$17,574, \$25,118 and \$96,975, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2006**

IV. DETAILED NOTES ON ALL FUNDS, continued

I. HEALTHCARE COVERAGE

During the year ended August 31, 2006, employees of the 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 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, 2005	\$ 60,548
Incurred claims (including IBNR's)	32,630
Claim Payments	<u>(18,105)</u>
Unpaid claims, August 31, 2006	<u>\$ 75,073</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	\$ 133,526	\$ 9,790	\$ 143,316

Adjustments required for government-wide Statement of Net Assets decreased deferred revenue by \$143,316.

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2006**

IV. DETAILED NOTES ON ALL FUNDS, continued

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, 2006 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	\$ 168,909	\$ -	\$ 168,909
Special Revenue	-	16,911	16,911
Total	<u>\$ 168,909</u>	<u>\$ 16,911</u>	<u>\$ 185,820</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	\$ 21,393,353	\$ -	\$ 579,701	\$ 21,973,054
Penalties, Interest and Other				
Tax-related Income	137,062	-	6,072	143,134
Investment Income	708,733	253	33,881	742,867
Food Sales	-	108,321	-	108,321
Cocurricular Student Activities	28,625	-	-	28,625
Other	73,736	-	-	73,736
Total	<u>\$ 22,341,509</u>	<u>\$ 108,574</u>	<u>\$ 619,654</u>	<u>\$ 23,069,737</u>

Adjustments required for the government-wide Statement of Activities decreased these revenues by \$1,230.

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2006**

IV. DETAILED NOTES ON ALL FUNDS, continued

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 the 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	\$ 1,116	\$ 6,936	\$ 63,198	\$ 2,298	\$ 5,351	\$ 8,703
Expenditures						
Payroll Costs	\$ 196	\$ 3,157	\$ 34,354	\$ 957	\$ 3,302	\$ 4,491
Contracted Services	382	1,729	168	574	1,563	2,486
Supplies & Materials	23	415	2,754	37	68	363
Other Costs	515	1,635	25,922	730	418	1,363
Total Expenditures	\$ 1,116	\$ 6,936	\$ 63,198	\$ 2,298	\$ 5,351	\$ 8,703
Percent Attributable to District	0.4%	5.3%	6.7%	6.2%	5.3%	3.2%

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 the 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	\$ 194,429	\$ 9,818	\$ 13,156
Expenditures:			
Payroll Costs	\$ 140,127	\$ 9,755	\$ 130
Contracted Services	25,080	63	55
Supplies and Materials	22,378	-	12,971
Others Costs	6,844	-	-
	\$ 194,429	\$ 9,818	\$ 13,156
Percent Attributable to District	12.46%	12.46%	12.46%

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
AUGUST 31, 2006**

IV. DETAILED NOTES ON ALL FUNDS, continued

O. CONTRACTUAL INSTRUCTIONAL SERVICES BETWEEN SCHOOLS

The 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. The District's expenses under these agreements were \$11,395,370 for the school year ended August 31, 2006.

P. DESIGNATED FUND BALANCE

The District has designated \$7,000,000 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 construction.

COMBINING SCHEDULES

TEAGUE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2006

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	\$ -	\$ -	\$ 29,380	\$ -
1120	Investments - Current	-	-	5,758	-
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes (Credit)	-	-	-	-
1240	Due from Other Governments	-	13,046	-	-
1000	Total Assets	<u>\$ -</u>	<u>\$ 13,046</u>	<u>\$ 35,138</u>	<u>\$ -</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
2105	Cash Deficit	\$ -	\$ -	\$ -	\$ -
2110	Accounts Payable	-	-	16,896	-
2160	Accrued Wages Payable	-	13,046	12,437	-
2300	Deferred Revenues	-	-	-	-
2000	Total Liabilities	<u>-</u>	<u>13,046</u>	<u>29,333</u>	<u>-</u>
Fund Balances:					
Reserved For:					
3420	Retirement of Long Term Debt	-	-	-	-
Unreserved Designated For:					
3520	Food Service	-	-	5,805	-
Unreserved and Undesignated:					
3610	Reported in Special Revenue Funds	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>5,805</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 13,046</u>	<u>\$ 35,138</u>	<u>\$ -</u>

270 ESEA VI, Pt B Rural & Low Income	272 Medicaid Admin. Claim MAC	289 Other Federal Special Revenue Funds	401 Optional Extended Year Program	404 Student Success Initiative	411 Technology Allotment	418 Employee Health Insurance	461 Campus Activity Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,774
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	672	308	2,885	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 672</u>	<u>\$ 308</u>	<u>\$ 2,885</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,774</u>
\$ -	\$ -	\$ 672	\$ 308	\$ 2,885	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	672	308	2,885	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	15,774
-	-	-	-	-	-	-	15,774
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 672</u>	<u>\$ 308</u>	<u>\$ 2,885</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,774</u>

TEAGUE INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2006

Data Control Codes	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS			
1110	\$ 45,154	\$ 1,565	\$ 46,719
1120	5,758	703,499	709,257
1220	-	83,317	83,317
1230	-	(73,527)	(73,527)
1240	16,911	-	16,911
1000	<u>\$ 67,823</u>	<u>\$ 714,854</u>	<u>\$ 782,677</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2105	\$ 3,865	\$ -	\$ 3,865
2110	16,896	-	16,896
2160	25,483	-	25,483
2300	-	9,790	9,790
2000	<u>46,244</u>	<u>9,790</u>	<u>56,034</u>
Fund Balances:			
Reserved For:			
3420	-	705,064	705,064
Unreserved Designated For:			
3520	5,805	-	5,805
Unreserved and Undesignated:			
3610	15,774	-	15,774
3000	<u>21,579</u>	<u>705,064</u>	<u>726,643</u>
4000	<u>\$ 67,823</u>	<u>\$ 714,854</u>	<u>\$ 782,677</u>

TEAGUE INDEPENDENT SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2006

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	\$ -	\$ -	\$ 108,575	\$ -
5800	State Program Revenues	426	-	6,455	-
5900	Federal Program Revenues	964	283,736	221,608	25,055
5020	Total Revenues	<u>1,390</u>	<u>283,736</u>	<u>336,638</u>	<u>25,055</u>
EXPENDITURES:					
Current:					
0011	Instruction	30	239,846	-	25,055
0012	Instructional Resources and Media Services	-	34,855	-	-
0013	Curriculum and Instructional Staff Development	-	575	-	-
0021	Instructional Leadership	-	8,460	-	-
0023	School Leadership	-	-	-	-
0031	Guidance, Counseling and Evaluation Services	-	-	-	-
0033	Health Services	-	-	-	-
0034	Student (Pupil) Transportation	-	-	-	-
0035	Food Services	-	-	360,678	-
0036	Cocurricular/Extracurricular Activities	-	-	-	-
0041	General Administration	-	-	-	-
0051	Plant Maintenance and Operations	-	-	-	-
0052	Security and Monitoring Services	1,360	-	-	-
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>1,390</u>	<u>283,736</u>	<u>360,678</u>	<u>25,055</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>(24,040)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	-	28,000	-
7080	Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>28,000</u>	<u>-</u>
1200	Net Change in Fund Balance	-	-	3,960	-
0100	Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>1,845</u>	<u>-</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,805</u>	<u>\$ -</u>

270 ESEA VI, Pt B Rural & Low Income	272 Medicaid Admin. Claim MAC	289 Other Federal Special Revenue Funds	401 Optional Extended Year Program	404 Student Success Initiative	411 Technology Allotment	418 Employee Health Insurance	461 Campus Activity Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	3,082	28,853	30,004	82,853	-
33,177	742	672	-	-	-	-	-
<u>33,177</u>	<u>742</u>	<u>672</u>	<u>3,082</u>	<u>28,853</u>	<u>30,004</u>	<u>82,853</u>	<u>-</u>
33,177	-	672	3,082	28,853	22,004	52,580	-
-	-	-	-	-	8,000	2,916	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	2,536	-
-	742	-	-	-	-	507	-
-	-	-	-	-	-	1,014	-
-	-	-	-	-	-	2,071	-
-	-	-	-	-	-	8,107	-
-	-	-	-	-	-	423	6,935
-	-	-	-	-	-	2,825	-
-	-	-	-	-	-	9,874	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>33,177</u>	<u>742</u>	<u>672</u>	<u>3,082</u>	<u>28,853</u>	<u>30,004</u>	<u>82,853</u>	<u>6,935</u>
-	-	-	-	-	-	-	(6,935)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	(6,935)
-	-	-	-	-	-	-	22,709
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 15,774</u>

TEAGUE INDEPENDENT SCHOOL DISTRICT
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2006

Data Control Codes	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds	
REVENUES:				
5700	Total Local and Intermediate Sources	\$ 108,575	\$ 619,654	\$ 728,229
5800	State Program Revenues	151,673	-	151,673
5900	Federal Program Revenues	565,954	-	565,954
5020	Total Revenues	<u>826,202</u>	<u>619,654</u>	<u>1,445,856</u>
EXPENDITURES:				
Current:				
0011	Instruction	405,299	-	405,299
0012	Instructional Resources and Media Services	45,771	-	45,771
0013	Curriculum and Instructional Staff Development	575	-	575
0021	Instructional Leadership	8,460	-	8,460
0023	School Leadership	2,536	-	2,536
0031	Guidance, Counseling and Evaluation Services	1,249	-	1,249
0033	Health Services	1,014	-	1,014
0034	Student (Pupil) Transportation	2,071	-	2,071
0035	Food Services	368,785	-	368,785
0036	Cocurricular/Extracurricular Activities	7,358	-	7,358
0041	General Administration	2,825	-	2,825
0051	Plant Maintenance and Operations	9,874	-	9,874
0052	Security and Monitoring Services	1,360	-	1,360
Debt Service:				
0071	Debt Service - Principal on Long Term Debt	-	325,000	325,000
0072	Debt Service - Interest on Long Term Debt	-	243,305	243,305
0073	Debt Service - Bond Issuance Cost and Fees	-	2,000	2,000
6030	Total Expenditures	<u>857,177</u>	<u>570,305</u>	<u>1,427,482</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(30,975)</u>	<u>49,349</u>	<u>18,374</u>
OTHER FINANCING SOURCES (USES):				
7915	Transfers In	28,000	-	28,000
7080	Total Other Financing Sources (Uses)	<u>28,000</u>	<u>-</u>	<u>28,000</u>
1200	Net Change in Fund Balance	(2,975)	49,349	46,374
0100	Fund Balance - September 1 (Beginning)	<u>24,554</u>	<u>655,715</u>	<u>680,269</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 21,579</u>	<u>\$ 705,064</u>	<u>\$ 726,643</u>

REQUIRED TEA SCHEDULES

TEAGUE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2006

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
1997 and prior years	Various	Various	\$ 365,185,620
1998	1.420000	0.020000	378,185,620
1999	1.420000	0.020000	395,778,541
2000	1.480000	0.020000	339,442,194
2001	1.500000	0.160000	377,500,421
2002	1.230000	0.110000	633,344,748
2003	1.400000	0.090000	748,571,073
2004	1.420000	0.090000	739,288,285
2005	1.150000	0.059000	1,120,016,353
2006 (School year under audit)	1.500000	0.040000	1,430,898,792
1000 TOTALS			

(10) Beginning Balance 9/1/2005	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2006
\$ 199,579	\$ -	\$ 11,660	\$ 614	\$ (26,768)	\$ 160,537
34,047	-	2,623	37	(1,289)	30,098
47,684	-	3,057	43	(1,725)	42,859
42,274	-	3,374	46	(1,712)	37,142
63,280	-	6,415	684	(2,541)	53,640
56,732	-	7,341	657	(2,143)	46,591
114,781	-	15,528	998	(2,601)	95,654
184,646	-	22,803	1,445	734	161,132
289,453	-	243,158	12,475	104,288	138,108
-	22,035,841	21,078,290	562,088	58,483	453,946
<u>\$ 1,032,476</u>	<u>\$ 22,035,841</u>	<u>\$ 21,394,249</u>	<u>\$ 579,087</u>	<u>\$ 124,726</u>	<u>\$ 1,219,707</u>

TEAGUE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2007-2008
 GENERAL AND SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2006

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	\$ -	\$ 49,953	\$ 111,952	\$ 100,750	\$ -	\$ -	\$ 262,655
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	662	-	-	-	662
6212	Audit Services	-	-	-	9,300	-	-	9,300
6213	Tax Appraisal and Collection	-	183,580	-	-	-	-	183,580
621X	Other Professional Services	3,343	130	-	11,174	-	-	14,647
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	-	12,871	6,922	10,764	-	1	30,558
6410	Travel, Subsistence, Stipends	7,565	2,046	2,372	2,180	-	(1)	14,162
6420	Ins. and Bonding Costs	5,101	500	-	-	-	-	5,601
6430	Election Costs	391	-	-	-	-	-	391
6490	Miscellaneous Operating	1,731	268	6,945	2,145	-	-	11,089
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 18,131	\$ 249,348	\$ 128,853	\$ 136,313	\$ -	\$ -	\$ 532,645

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 21,070,712

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10) \$ 479,013
Total Debt & Lease(6500)	(11) -
Plant Maintenance (Function 51, 6100-6400)	(12) 1,291,152
Food (Function 35, 6341 and 6499)	(13) 155,934
Stipends (6413)	(14) -
Column 4 (above) - Total Indirect Cost	136,313

SubTotal: 2,062,412

Net Allowed Direct Cost \$ 19,008,300

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15) \$ 14,360,921
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) \$ 1,246,833
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, 2006

UNAUDITED

1	Total General Fund Balance as of 8/31/06 (Exhibit C-1 object 3000 for the General Fund Only)		\$ 12,147,945
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)	7,700,000	
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)	2,305,534	
5	Estimate of one month's average cash disbursements during the regular school session (9/1/06-5/31/07).	1,219,790	
6	Estimate of delayed payments from state sources (58xx) including August payment delays	168,909	
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)	16,911	
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)	<u>-</u>	
10	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)		<u>11,411,144</u>
11	Excess (Deficit) Undesignated Unreserved General Fund Balance (Line 1 minus Line 10)		<u>\$ 736,801</u>

Explanation of need for and/or projected use of net positive Undesignated Unreserved General Fund Fund Balance:
for possible additional classrooms and road repairs

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, 2006

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	\$ 89,335	\$ 89,335	\$ 108,575	\$ 19,240
5800 State Program Revenues	1,100	1,100	6,455	5,355
5900 Federal Program Revenues	128,500	128,500	221,608	93,108
5020 Total Revenues	218,935	218,935	336,638	117,703
EXPENDITURES:				
0035 Food Services	360,716	360,716	360,678	38
6030 Total Expenditures	360,716	360,716	360,678	38
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(141,781)	(141,781)	(24,040)	117,741
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	28,000	28,000
7080 Total Other Financing Sources (Uses)	-	-	28,000	28,000
1200 Net Change in Fund Balances	(141,781)	(141,781)	3,960	145,741
0100 Fund Balance - September 1 (Beginning)	1,845	1,845	1,845	-
3000 Fund Balance - August 31 (Ending)	\$ (139,936)	\$ (139,936)	\$ 5,805	\$ 145,741

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, 2006

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	\$ 450,599	\$ 450,599	\$ 619,654	\$ 169,055
5020	Total Revenues	450,599	450,599	619,654	169,055
EXPENDITURES:					
Debt Service:					
0071	Debt Service - Principal on Long Term Debt	325,000	325,000	325,000	-
0072	Debt Service - Interest on Long Term Debt	243,306	243,306	243,305	1
0073	Debt Service - Bond Issuance Cost and Fees	1,200	2,000	2,000	-
6030	Total Expenditures	569,506	570,306	570,305	1
1200	Net Change in Fund Balances	(118,907)	(119,707)	49,349	169,056
0100	Fund Balance - September 1 (Beginning)	-	655,715	655,715	-
1300	Increase (Decrease) in Fund Balance	655,715	-	-	-
3000	Fund Balance - August 31 (Ending)	\$ 536,808	\$ 536,008	\$ 705,064	\$ 169,056

FEDERAL AWARDS SECTION



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

Independent Auditor's Report

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

Phone: 817-338-1115
Fax: 817-338-1163
www.sga.com

Board of Trustees
Teague Independent School District
420 North 10th Street
Teague, Texas 75860:

Members of the Board:

We have audited the accompanying financial statements of the governmental activities of each major fund and aggregate remaining fund information of Teague Independent School District ("the District") as of and for the year ended August 31, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated November 29, 2006. 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 the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide 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 the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed 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, and federal awarding agencies and pass-through entities, and is not intended to be used and should not be used by anyone other than these specified parties.

Stovall, Grandey & Allen, L.L.P.

STOVALL, GRANDEY & ALLEN, LLP

Fort Worth, Texas

November 29, 2006



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

Independent Auditor's Report

COOPER UNIVERSITY LLP
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
420 North 10th Street
Teague, Texas 75860

Members of the Board:

Compliance

We have audited the compliance of Teague Independent School District (the "District") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2006. 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 the 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2006.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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
Fort Worth, Texas
November 29, 2006

**TEAGUE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2006**

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

ESEA, Title I – CFDA 84.010A

Pass-through Entity

Texas Education Agency

**TEAGUE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2006**

The prior year report disclosed no findings.

TEAGUE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2006

(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	S 270,690
ESEA Title I Part A- Improving Basic Programs	84.010A	07610101081904	13,046
Total CFDA Number 84.010A			283,736
ESEA Title IV - Safe and Drug-Free Schools	84.186A	06691001113901	964
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	06696001081904	33,177
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	06694501113901	25,055
Title VI 2006 Summer School for Limited English	84.369A	06050045081904	672
Total Passed Through State Department of Education			S 343,604
TOTAL DEPARTMENT OF EDUCATION			S 343,604
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Direct Programs</u>			
Medicaid Administrative Program-MAC	93.778		S 742
Total Direct Programs			S 742
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			S 742
U.S. DEPARTMENT OF AGRICULTURE			
<u>Direct Programs</u>			
Commodities	10.565		S 17,923
Total Direct Programs			S 17,923
<u>Passed Through the State Department of Agriculture</u>			
National School Lunch Program*	10.555		S 150,730
National School Breakfast Program	10.553		52,955
Total Passed Through the State Department of Agriculture			S 203,685
TOTAL DEPARTMENT OF AGRICULTURE			S 221,608
TOTAL EXPENDITURES OF FEDERAL AWARDS			S 565,954

*Clustered Programs as required by Compliance Supplement March, 2006

**TEAGUE INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2006**

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.