



**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED  
AUGUST 31, 2006**

**THIS PAGE LEFT BLANK INTENTIONALLY**

COLLEGE STATION INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2006

TABLE OF CONTENTS

<u>Exhibit</u>	<u>Page</u>
Certificate of Board	1
Independent Auditors' Report	2
Management's Discussion and Analysis	4
<b><u>Basic Financial Statements</u></b>	
Government-wide Statements:	
A-1 Statement of Net Assets	12
B-1 Statement of Activities	13
Governmental Fund Financial Statements:	
C-1 Balance Sheet	15
C-2 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	16
C-3 Statement of Revenues, Expenditures, and Changes in Fund Balance	17
C-4 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Proprietary Fund Financial Statements:	
D-1 Statement of Net Assets	19
D-2 Statement of Revenues, Expenses, and Changes in Fund Net Assets	20
D-3 Statement of Cash Flows	21
E-1 Statement of Fiduciary Net Assets	22
Notes to the Financial Statements	23
<b><u>Required Supplementary Information</u></b>	
G-1 Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual – General Fund	42
Notes to Required Supplementary Information	43
<b><u>Combining Statements</u></b>	
Nonmajor Governmental Funds:	
H-1 Combining Balance Sheet	44
H-2 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	50
Internal Service Funds:	
H-3 Combining Statement of Net Assets	56
H-4 Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets	58
H-5 Combining Statement of Cash Flows	60
Nonmajor Enterprise Funds:	
H-6 Combining Statement of Net Assets	62
H-7 Combining Statement of Revenues, Expenses, and Changes in Fund Net Assets	63
H-8 Combining Statement of Cash Flows	64
<b><u>Required TEA Schedules</u></b>	
J-1 Schedule of Delinquent Taxes Receivable	65
J-2 Schedule of Expenditures for Computations of Indirect Cost for 2007 – 2008	67
J-3 Fund Balance and Cash Flow Calculation Worksheet (Unaudited)	68
J-4 Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual – National School Breakfast and Lunch Program	69
J-5 Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual – Debt Service Fund	70

COLLEGE STATION INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2006  
(Continued)  
TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	<b><u>Federal Awards Section</u></b>	
	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	71
	Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	73
K-1	Schedule of Expenditures of Federal Awards	75
	Notes to Schedule of Expenditures of Federal Awards	76
	Schedule of Findings and Questioned Costs	77
	Summary Schedule of Prior Audit Findings	79

CERTIFICATE OF BOARD

College Station Independent School District  
Name of School District

Brazos  
County

021901  
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 12th of December, 2006.

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

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

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

**THIS PAGE LEFT BLANK INTENTIONALLY**

## INDEPENDENT AUDITORS' REPORT

Board of Trustees of  
College Station Independent School District  
College Station, Texas

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 the 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, the business-type activities, each major fund, and the aggregate remaining fund information of College Station Independent School District as of August 31, 2006, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2006, on our consideration of College Station Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information on pages 4 through 11 and 42 through 43, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise College Station Independent School District's basic financial statements. The combining statements and required TEA schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Nonprofit Organizations*, and is also not a required part of the basic financial statements of College Station Independent School District. The combining statements, required TEA schedules, and accompanying 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. Exhibit J-3 (Fund Balance and Cash Flow Calculation Worksheet) has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Pattillo, Brown & Hill, L.L.P.

November 1, 2006



# COLLEGE STATION INDEPENDENT SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

AUGUST 31, 2006

Our discussion and analysis of College Station Independent School District's financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2006. Please read it in conjunction with the District's financial statements, which begin on page 12.

### FINANCIAL HIGHLIGHTS

- The District's net assets increased by \$11 million as a result of this year's operations.
- During the year, the District had expenses that were \$6 million less than the \$86 million generated in tax and other revenues for governmental programs. This compares to last year when expenses were less than revenues by \$13 million.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$32 million, an increase of \$8 million in comparison with the prior year. \$32 million is *available for spending* at the District's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$25.8 million, or 41% of total General Fund expenditures.

### 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 pages 12 and 13 – 14). These provide information about the activities of the District as a whole and present a long-term view of the District's property and obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 15) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered expenses of the goods or service. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee.

The notes to the financial statements (starting on page 23) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The combining statements for nonmajor funds are presented immediately following the required supplementary information. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

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

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

The analysis of the District's overall financial condition and operations begins on page 12. Its primary objective 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 while the Statement of Activities includes all the revenue and expenses generated by the District's operations during the year. These apply the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The District's revenue is divided into those provided by outside parties who share the costs of some programs, such as tuition received from students outside the District and grants provided by the U. S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenue), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenue). All of 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 two kinds of activities:

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

***Business-type Activities*** – The District's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services to those activities.

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

### ***Fund Financial Statements***

The Fund financial statements begin on page 15 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). The District's two kinds of funds – governmental and proprietary – use different accounting approaches.

***Governmental Funds*** – The District reports most of its basic services 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 they 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 governmental fund financial statements.

***Proprietary Funds*** – Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. There are two proprietary fund types. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. As mentioned above in the government-wide definition, the District uses the business-type activities or Enterprise Funds to report activities for Community Education and Kids Klub. The second type of proprietary fund is the Internal Service Fund. Internal Service Funds report activities that provide supplies and services for the District's other programs and activities – such as the District's self-insurance programs, the print shop and flexible benefits.

## **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 separate Statements of Fiduciary Net Assets on page 22. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The largest portion of the District's net assets (59%) reflects its investment in capital assets (e.g. land and buildings) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide facilities for educational services; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the District's net assets (2%) represents sources that are restricted for future debt service payments, campus activities, and state and federal programs. The remaining balance of unrestricted net assets (\$30 million) may be used to meet the District's ongoing obligations.

Table 1 provides a comparison of net assets as of August 31, 2006, compared to August 31, 2005.

**TABLE 1**  
**COLLEGE STATION INDEPENDENT SCHOOL DISTRICT**  
**NET ASSETS**

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 37,554,691	\$ 30,174,128	\$ 491,590	\$ 385,690	\$ 38,046,281	\$ 30,559,818
Capital assets	<u>100,639,756</u>	<u>101,517,998</u>	<u>-</u>	<u>-</u>	<u>100,639,756</u>	<u>101,517,998</u>
Total assets	<u>138,194,447</u>	<u>131,692,126</u>	<u>491,590</u>	<u>385,690</u>	<u>138,686,037</u>	<u>132,077,816</u>
Other liabilities	3,479,748	3,329,353	241,346	227,746	3,721,094	3,557,099
Long-term liabilities	<u>55,966,584</u>	<u>60,896,173</u>	<u>-</u>	<u>-</u>	<u>55,966,584</u>	<u>60,896,173</u>
Total liabilities	<u>59,446,332</u>	<u>64,225,526</u>	<u>241,346</u>	<u>227,746</u>	<u>59,687,678</u>	<u>64,453,272</u>
Net assets:						
Invested in capital assets, net of related debt	46,829,296	42,436,452	-	-	46,829,296	42,436,452
Restricted	1,591,690	3,102,100	-	-	1,591,690	3,102,100
Unrestricted	<u>30,327,129</u>	<u>21,928,048</u>	<u>250,244</u>	<u>157,944</u>	<u>30,577,373</u>	<u>22,085,992</u>
Total net assets	<u>\$ 78,748,115</u>	<u>\$ 67,466,600</u>	<u>\$ 250,244</u>	<u>\$ 157,944</u>	<u>\$ 78,998,359</u>	<u>\$ 67,624,544</u>

Total assets increased \$6.6 million with governmental activities comprising a majority of the change. The change was expected in conjunction with the increase in assessed property values for school tax purposes, resulting in an increase of the property tax levy by approximately \$3.5 million.

Total liabilities of the District's governmental activities decreased in the amount of \$4.8 million. This decrease is primarily due to the District starting a capital project at the end of fiscal year 2004 that was completed in fiscal year 2005 which resulted in a decrease in accounts payable at the end of the current year. Additionally, the District made its annual debt service payments which decreased liabilities by approximately \$4.2 million.

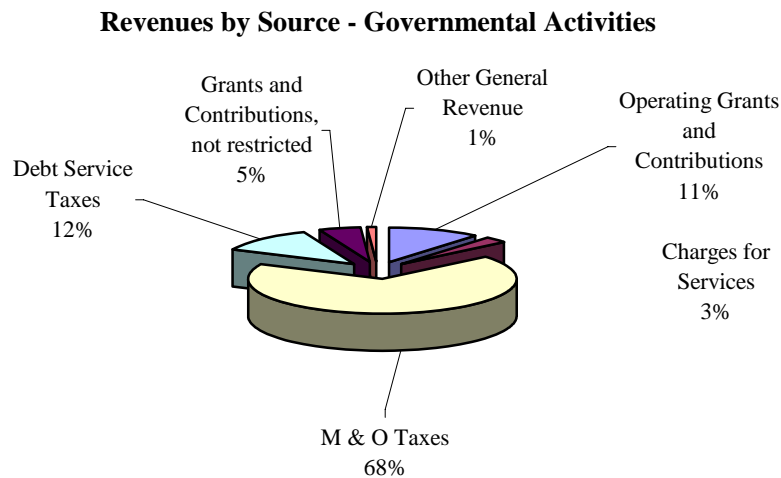
Net assets of the District's activities increased from \$67 million to \$78 million. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was \$30 million as of August 31, 2006.

**TABLE 2**  
**COLLEGE STATION INDEPENDENT SCHOOL DISTRICT**  
**CHANGES IN NET ASSETS**

	Governmental Activities		Business-type Activities		Totals	
	2006	2005	2006	2005	2006	2005
<b>REVENUES</b>						
Program revenues:						
Charges for services	\$ 3,081,205	\$ 2,400,008	\$ 1,131,627	\$ 1,093,209	\$ 4,212,832	\$ 3,493,217
Operating grants and contributions	9,349,855	8,035,028	-	-	9,349,855	8,035,028
General revenues and special item:						
Maintenance and operations taxes	59,871,015	53,641,075	-	-	59,871,015	53,641,075
Debt service taxes	7,052,710	9,660,305	-	-	7,052,710	9,660,305
Grants and contributions not restricted	4,241,691	4,218,094	-	-	4,241,691	4,218,094
Investment earnings	1,919,654	1,038,802	-	-	1,919,654	1,038,802
Miscellaneous local and intermediate	791,802	403,569	-	-	791,802	403,569
Special item	409,569	-	-	-	409,569	-
Total revenues	<u>86,717,501</u>	<u>79,396,881</u>	<u>1,131,627</u>	<u>1,093,209</u>	<u>87,849,128</u>	<u>80,490,090</u>
<b>EXPENSES</b>						
Instruction	37,103,738	32,632,905	-	-	37,103,738	32,632,905
Instructional resources and media services	1,323,436	962,080	-	-	1,323,436	962,080
Curriculum and staff development	1,028,745	975,710	-	-	1,028,745	975,710
Instructional leadership	1,277,185	1,132,660	-	-	1,277,185	1,132,660
School leadership	3,449,427	2,937,755	-	-	3,449,427	2,937,755
Guidance, counseling and evaluation services	2,298,327	1,873,458	-	-	2,298,327	1,873,458
Social work services	8,710	8,982	-	-	8,710	8,982
Health services	630,278	602,037	-	-	630,278	602,037
Student (pupil) transportation	1,297,688	1,295,855	-	-	1,297,688	1,295,855
Food services	3,047,559	2,716,963	-	-	3,047,559	2,716,963
Co-curricular/extracurricular activities	2,381,018	2,250,296	-	-	2,381,018	2,250,296
General administration	2,583,258	2,296,820	-	-	2,583,258	2,296,820
Plant maintenance and operations	6,869,611	5,889,404	-	-	6,869,611	5,889,404
Security and monitoring services	45,395	47,724	-	-	45,395	47,724
Data processing services	780,716	667,750	-	-	780,716	667,750
Community services	354,932	352,752	-	-	354,932	352,752
Debt service - interest on long-term debt	2,221,733	3,071,040	-	-	2,221,733	3,071,040
Debt service - bond issuance cost and fees	45,720	48,076	-	-	45,720	48,076
Payments to tax increment fund	386,495	345,601	-	-	386,495	345,601
Contracted instructional services between schools	8,302,015	6,182,457	-	-	8,302,015	6,182,457
Community education	-	-	324,497	410,679	324,497	410,679
Kids Klub	-	-	714,830	675,239	714,830	675,239
Total expenses	<u>75,435,986</u>	<u>66,290,325</u>	<u>1,039,327</u>	<u>1,085,918</u>	<u>76,475,313</u>	<u>67,376,243</u>
<b>INCREASE IN NET ASSETS</b>	11,281,515	13,106,556	92,300	7,291	11,373,815	13,113,847
<b>NET ASSETS, BEGINNING</b>	<u>67,466,600</u>	<u>54,360,044</u>	<u>157,944</u>	<u>150,653</u>	<u>67,624,544</u>	<u>54,510,697</u>
<b>NET ASSETS, ENDING</b>	<u>\$ 78,748,115</u>	<u>\$ 67,466,600</u>	<u>\$ 250,244</u>	<u>\$ 157,944</u>	<u>\$ 78,998,359</u>	<u>\$ 67,624,544</u>

Table 2 provides a comparison of changes in net assets for the year ended August 31, 2006, compared to August 31, 2005.

The \$11 million increase in governmental activities was primarily due to the increase in assessed property values for school tax purposes resulting in an increase of property tax revenue in the amount of \$4 million, or 5%. Grants and contributions increased in the amount of \$1.3 million due to an increase in state and federal funding. The increase in state and federal funding was a result of an increase in program revenue. Food Service, IDEA – Part B, Title I and Head Start program revenues increased by approximately \$693 thousand. Additionally, the District received \$730 thousand for Emergency Impact Aid to reimburse costs related to Hurricane Katrina victims. Investment earnings increased in the amount of \$900 thousand due to an increase in available cash. Expenses increased significantly primarily due to the opening of Forest Ridge Elementary School.



Property taxes made up 77% of total revenues for governmental activities. Program revenues for governmental activities provided 14% of governmental revenues. The remaining 9% of all governmental revenues was derived from contributions not restricted, and other general revenue.

The District has been designated as a Chapter 41 Robin Hood District as the property values per weighted average daily attendance exceeded the state mandated level of \$305,000 per weighted average daily attendance. For the 2005-2006 year, the District’s property value per weighted average daily attendance was \$359,656. The District was required to remit \$8.3 million to its partner district to equalize wealth level to \$305,000 per weighted average daily attendance, an increase of \$2.1 million compared to the prior year.

**THE DISTRICT’S FUNDS**

As the District completed the year, its governmental funds (as presented in the balance sheet on page 15) reported a combined fund balance of approximately \$32 million, which is more than last year’s total by \$7 million. The District’s Governmental Fund balance increased primarily due to the completion of the use of bond proceeds to build additional facilities for the District.

The general fund is the maintenance and operating fund of the District. At the end of the current fiscal year, unreserved fund balance of the general fund was \$25.8 million while total fund balances for all funds reached \$31.8 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance to the total general fund expenditures. Unreserved fund balance represents 41% of the total general fund expenditures. It is important to note, that the District is required to use its reserves for operating costs which occur prior to the receipt of tax payments which are due January 31st.

Over the course of the year, the Board of Trustees amended the District's budget several times. These amendments fall into two categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August of 2005). Also, the second category was the Board approving several increases in appropriations to prevent budget overruns.

The District's General Fund balance of \$26 million reported on pages 17 and 42 differs from the General Fund's budgetary fund balance of \$19 million. This is principally due to conservative budgeting principles.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2006, the District had approximately \$101 million (net of accumulated depreciation) invested in a broad range of capital assets, including instructional facilities and equipment, transportation facilities and equipment, athletic facilities, and administrative and maintenance buildings and equipment. Additional detailed information about the District's capital assets is presented in the notes to the financial statements.

This year's major additions included:

Building improvements	\$ 1,320,700
Construction of new facilities	723,833
Vehicles	559,407
Other miscellaneous items	<u>64,599</u>
	<u>\$ 2,668,539</u>

## **Debt**

At year-end, the District had approximately \$56 million in bonds and capital leases outstanding versus approximately \$61 million last year. Total debt decreased by \$4 million, a result of bond and capital lease payments. The District's general obligation bond rating continues to carry the highest rating possible, a rating that has been assigned by national rating agencies. Additional detailed information about the District's debt is presented in the notes to the financial statements.

## **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. The District expects tax revenue to increase modestly for fiscal year 2007. Continued growth in the tax base is expected to be the driving force in increased collections. The District also expects expenditures to grow.

## **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 Administration office, at 1812 Welsh Street, College Station, Texas 77840.



## BASIC FINANCIAL STATEMENTS

**THIS PAGE LEFT BLANK INTENTIONALLY**



# COLLEGE STATION INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

AUGUST 31, 2006

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

College Station 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 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.

#### A. Reporting Entity

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

The College Station Independent School District Education Foundation, Inc. (the "Foundation"), a not-for-profit entity which was organized to provide scholarship funds, is a "related organization" of the District as defined by *Governmental Accounting Standards Board Statement No. 14*. The members of the Board of the Foundation are appointed by an outside taxpayer group.

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes, state foundation funds, grants and other intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

(continued)

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B.**

---

# I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

## D. Assets, Liabilities, and Net Assets or Equity

### 1. *Deposits and Investments*

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Investments for the District are reported at fair value.

### 2. *Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property taxes receivable are shown net of an allowance for uncollectibles. The property tax receivable allowance is based on the District's historical experience in collecting property taxes.

Property taxes are levied as of October 1 on property values assessed 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 following year in which imposed. On January 31 of each year, a tax lien attaches to property to secure payment of all taxes, penalties, and interest ultimately imposed.

Tax collections are prorated between the General Fund and Debt Service Fund based on the tax rate approved by the Board. For the year ended August 31, 2006, the rates were \$1.50 and \$.175, respectively, per \$100 of assessed value.

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.

(continued)

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities, and Net Assets or Equity (Continued)**

**3. *Inventory***

The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.

**4. *Capital Assets***

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the governmental or business-type activities columns in the financial statements. Capital assets are defined by the government 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.

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

<u>Assets</u>	<u>Years</u>
Buildings and improvements	39
Portable buildings	20
Vehicles	5
Furniture and equipment	5-7

**5. *Restricted Assets***

Certain proceeds of the District's capital lease for equipment are classified as restricted assets on the balance sheet because they are maintained in an escrow account and their use is limited by applicable covenants.

**(continued)**



## **I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **D. Assets, Liabilities, and Net Assets or Equity (Continued)**

#### **6. *Long-term Obligations***

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

#### **7. *Compensated Absences***

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.

#### **8. *Fund Equity***

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

#### **9. *Net Assets***

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

**(continued)**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Assets, Liabilities, and Net Assets or Equity (Continued)**

**10. *Estimates***

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

**11. *Data Control Codes***

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

**II. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

As of August 31, 2006, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Tex Pool	\$ 20,113,548	24
Lone Star Investment Pool	7,696,410	19

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, and (9) 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, and (10) 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.

**(continued)**

**II. DETAILED NOTES ON ALL FUNDS (Continued)**

**A. Deposits and Investments (Continued)**

The District’s investment pools are 2a7-like pools. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission (“SEC”) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940.

**Custodial Credit Risk**

In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. As of August 31, 2006, \$6,622,301 of the District’s \$6,722,301 deposit balance was collateralized with securities held by the pledging financial institution. The remaining balance, \$100,000, was covered by FDIC insurance. In addition, the District’s highest deposit balance occurred in January 2006 and was entirely covered by FDIC insurance or by securities held by the pledging financial institution.

**Credit Risk**

It is the District’s policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The District’s investment pools are rated as follows by Standard and Poor’s Investors Service.

Tex Pool	AAA
Lone Star Investment Pool	AAAF

**B. Receivables**

Receivables as of year-end for the District’s individual major funds and nonmajor, internal service and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Nonmajor Governmental</u>	<u>Total</u>
Receivables:			
Taxes	\$ 1,762,456	\$ 303,099	\$ 2,065,555
Intergovernmental	2,433,589	352,172	2,785,761
Other	<u>8,730</u>	<u>54,451</u>	<u>63,181</u>
Gross receivables	4,204,775	709,722	4,914,497
Less: allowance for uncollectibles	<u>( 370,116)</u>	<u>( 63,651)</u>	<u>( 433,767)</u>
Net total receivables	<u>\$ 3,834,659</u>	<u>\$ 646,071</u>	<u>\$ 4,480,730</u>

(continued)

## II. DETAILED NOTES ON ALL FUNDS (Continued)

### B. Receivables (Continued)

Governmental funds report *deferred revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred revenue* and *unearned revenue* reported in the governmental funds were as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Delinquent property taxes receivable (General fund)	\$ 1,193,127	\$ -
Delinquent property taxes receivable (Nonmajor governmental)	220,395	-
Extracurricular activities	-	26,340
Other	-	10,581
Grants drawn down prior to meeting all eligibility requirements	<u>-</u>	<u>56,272</u>
Total deferred/unearned revenue for governmental funds	<u>\$ 1,413,522</u>	<u>\$ 93,193</u>

### C. Capital Assets

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

	Beginning Balance 09/01/05	Increases	Decreases	Ending Balance 08/31/06
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 3,971,937	\$ -	\$ -	\$ 3,971,937
Construction in progress	<u>65,262</u>	<u>293,417</u>	<u>65,262</u>	<u>293,417</u>
Total capital assets, not being depreciated	<u>4,037,199</u>	<u>293,417</u>	<u>65,262</u>	<u>4,265,354</u>
Capital assets, being depreciated:				
Buildings	132,636,856	2,027,078	-	134,663,934
Furniture and equipment	6,286,044	641,461	-	6,927,505
Leased property under capital leases	<u>826,061</u>	<u>-</u>	<u>-</u>	<u>826,061</u>
Total capital assets, being depreciated	<u>139,748,961</u>	<u>2,668,539</u>	<u>-</u>	<u>142,417,500</u>
Less accumulated depreciation for:				
Buildings	( 36,617,116)	( 3,407,213)	-	( 40,024,329)
Furniture and equipment	( 5,476,147)	( 273,791)	-	( 5,749,938)
Leased property under capital leases	<u>( 174,899)</u>	<u>( 93,932)</u>	<u>-</u>	<u>( 268,831)</u>
Total accumulated depreciation	<u>( 42,268,162)</u>	<u>( 3,774,936)</u>	<u>-</u>	<u>( 46,043,098)</u>
Total capital assets, being depreciated, net	<u>97,480,799</u>	<u>( 1,106,397)</u>	<u>-</u>	<u>96,374,402</u>
Governmental activities capital assets, net	<u>\$ 101,517,998</u>	<u>\$( 812,980)</u>	<u>\$ 65,262</u>	<u>\$ 100,639,756</u>

(continued)

**II. DETAILED NOTES ON ALL FUNDS (Continued)**

**C. Capital Assets (Continued)**

Depreciation expense was charged to functions of the primary government as follows:

**Governmental activities:**

Instruction	\$ 2,597,019
Instructional resources and media services	95,068
Curriculum and instructional staff development	13,922
Instructional leadership	6,698
School leadership	230,521
Guidance, counseling and evaluation services	88,952
Social work services	722
Health services	29,156
Student (pupil) transportation	151,185
Food services	107,196
Co-curricular/extracurricular	339,227
General administration	58,809
Plant maintenance and operations	49,740
Data processing services	<u>6,721</u>
Total depreciation expense - governmental activities	<u>\$ 3,774,936</u>

**D. Interfund Receivables and Payables and Transfers**

The composition of interfund balances as of August 31, 2006, is as follows:

**Due From/To Other Funds**

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental	<u>\$ 267,591</u>

Balances resulted from the time lag between the dates that 1) interfund goods and services are provided on reimbursable expenditures occur, and 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

Transfers for the year ended August 31, 2006, consisted of the following:

<u>Transfers out</u>	<u>Transfers in</u>	<u>Amount</u>
Internal service	Nonmajor governmental	\$ 611,861
Nonmajor governmental	General	<u>188,944</u>
		<u>\$ 800,805</u>

(continued)

## II. DETAILED NOTES ON ALL FUNDS (Continued)

### D. Interfund Receivables and Payables and Transfers (Continued)

The District transferred \$611,861 from its health self-insurance fund to a capital projects fund during the current year in order to close the fund. The District accumulated \$188,944 of expenditures related to Hurricane Katrina in the General Fund that were reimbursed by Emergency Impact Aid. Therefore, \$188,944 of resources were transferred from a nonmajor governmental fund to the General Fund.

### E. Short-term Debt

The District accounts for short-term debt for maintenance purposes through the General Fund. Short-term debts include notes made in accordance with the provisions of the Texas Education Code Section 45.108. During the year, the District issued short-term Tax and Revenue Anticipation Notes Series 2005 in the amount of \$4 million to provide funds to meet operating cash flow needs. These notes matured August 31, 2006, and total interest paid was \$118,222.

### F. Long-term Debt

The following is a summary of changes in long-term debt:

	Balance 09/01/05	Additions	Reductions	Balance 08/31/06	Amounts Due in One Year
Bonds	\$ 58,785,000	\$ -	\$ 4,180,000	\$ 54,605,000	\$ 4,390,000
Premium on issuance of bonds	1,452,980	-	142,721	1,310,259	142,721
Deferred loss on refunding	( 1,000,613)	-	( 90,965)	( 909,648)	( 90,965)
Capital leases	1,292,325	-	687,374	604,951	428,604
Compensated absences	<u>366,481</u>	<u>62,838</u>	<u>73,297</u>	<u>356,022</u>	<u>71,204</u>
Totals	<u>\$ 60,896,173</u>	<u>\$ 62,838</u>	<u>\$ 4,992,427</u>	<u>\$ 55,966,584</u>	<u>\$ 4,941,564</u>

Compensated absences will be liquidated by several of the District's funds, including the General Fund and Special Revenue Funds.

#### 1. *Bonds Payable*

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government.

(continued)

**II. DETAILED NOTES ON ALL FUNDS (Continued)**

**F. Long-term Debt (Continued)**

**1. Bonds Payable (Continued)**

A summary of changes in general obligation bonds payable for the year ended August 31, 2006, is as follows:

Description	Interest Rate Payable	Amount Original Issue	Interest Current Year	Amount Outstanding 09/01/05	Issued	Retired	Amount Outstanding 08/31/06
Unlimited Tax Refunding Bonds, Series 1996	4.5 to 7.5%	\$ 20,000,000	\$ 265,050	\$ 5,370,000	\$ -	\$ 780,000	\$ 4,590,000
Unlimited Tax School Building Bonds, Series 1997	4.75 to 6.4%	29,550,000	285,600	6,135,000	-	675,000	5,460,000
Unlimited Tax School Building Bonds, Series 1999	4.125 to 6.125%	8,000,000	297,624	6,635,000	-	315,000	6,320,000
Unlimited Tax Refunding Bonds, Series 2002	4.125 to 5.0%	12,700,000	392,786	8,940,000	-	1,835,000	7,105,000
Unlimited Tax School Building Bonds, Series 2004	2.5 to 4.4%	14,000,000	513,700	13,725,000	-	525,000	13,200,000
Unlimited Tax Refund Bonds, Series 2004	2.0 to 5.0%	18,095,000	787,969	17,980,000	-	50,000	17,930,000
Totals			\$ 2,542,729	\$ 58,785,000	\$ -	\$ 4,180,000	\$ 54,605,000

(continued)

## II. DETAILED NOTES ON ALL FUNDS (Continued)

### F. Long-term Debt (Continued)

#### 1. *Bonds Payable* (Continued)

Debt service requirements are as follows:

Year Ended August 31,	General Obligations		Total Requirements
	Principal	Interest	
2007	\$ 4,390,000	\$ 2,311,273	\$ 6,701,273
2008	4,605,000	2,107,216	6,712,216
2009	4,830,000	1,914,304	6,744,304
2010	3,540,000	1,744,552	5,284,552
2011	3,030,000	1,614,002	4,644,002
2012 - 2016	16,785,000	5,885,814	22,670,814
2017 - 2021	14,540,000	2,141,380	16,681,380
2022 - 2024	<u>2,885,000</u>	<u>256,220</u>	<u>3,141,220</u>
Total	<u>\$ 54,605,000</u>	<u>\$ 17,974,761</u>	<u>\$ 72,579,761</u>

In prior years, the District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. On August 31, 2006, there were no bonds considered defeased and still outstanding.

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2006.

(continued)



**II. DETAILED NOTES ON ALL FUNDS (Continued)**

**F. Long-term Debt (Continued)**

**2. *Capital Leases***

The District has entered into lease agreements as lessee for financing the acquisition of certain buses and other equipment. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date. The imputed interest on the capital leases ranges from 2.47% to 5.09%.

The future minimum lease obligations and the net present value of these minimum lease payments as of August 31, 2006, were as follows:

<u>Year Ending August 31,</u>	<u>Governmental Activities</u>
2007	\$ 447,163
2008	145,071
2009	<u>36,267</u>
Total minimum lease payments	628,501
Less: amount representing interest	<u>23,550</u>
Present value of minimum lease payments	<u><u>\$ 604,951</u></u>

**G. Special Item**

The special item in the amount of \$409,569 is proceeds from the sale of real property.

### III. OTHER INFORMATION

#### A. Defined Benefit Pension Plan

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

**Funding Policy.** 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; and (2) a state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or if the amortization period already exceeds 31 years, the period would be increased by such action. State contributions to TRS made on behalf of College Station Independent School District's employees for the years ended August 31, 2004, 2005 and 2006, were \$3,072,521, \$2,975,112 and \$3,473,134, respectively. College Station Independent School District paid additional state contributions for the years ended August 31, 2004, 2005 and 2006, in the amount of \$453,476, \$460,826 and \$481,727, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

(continued)

### III. OTHER INFORMATION (Continued)

#### B. Health Care Coverage

As of January 1, 2003, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$325 per month per employee and dependents to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the District and the licensed insurer is renewable January 1, 2006, and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for the insurer are available for the year ended December 31, 2005, and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

Prior to January 1, 2003, employees of the District were covered by a health self-insurance plan.

#### C. Risk Management

##### 1. *General*

The District is exposed to various risks related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Such insurance is consistent with the prior year, and no losses were sustained in excess of the coverage over the past three fiscal years.

##### 2. *Workers' Compensation – Self-funded*

During the year ended August 31, 2006, College Station ISD met its statutory workers' compensation obligations by participating as a self-funded member of the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and Chapter 504, Texas Labor Code. All districts participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. As a self-funded member of the TASB Risk Management Fund, College Station ISD is solely responsible for all claim costs, both reported and unreported. The Fund provides administrative service to its self-funded members including claims administration and customer service. The member is protected against higher than expected claims costs through the purchase of stop-loss coverage. Stop-loss coverage was in effect for annual individual claims exceeding \$250,000. There were no claims against the stop-loss coverage in the past two years.

(continued)

### III. OTHER INFORMATION (Continued)

#### C. Risk Management (Continued)

##### 2. *Workers' Compensation – Self-funded* (Continued)

The following is a summary of the changes in the balances of claim liabilities for workers' compensation for the years ended August 31, 2006 and 2005:

	<u>2006</u>	<u>2005</u>
Liability, beginning of period	\$ 52,261	\$ -
Claims incurred during the period	318,483	204,249
Payments on claims	<u>( 202,325)</u>	<u>( 151,988)</u>
Liability, end of period	<u>\$ 168,419</u>	<u>\$ 52,261</u>

The Fund engages the services of Ernst & Young to conduct an independent financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2005, are available at the TASB offices and have been filed with the Texas State Board of Insurance in Austin.

##### 3. *Unemployment Compensation Pool*

During the year ended August 31, 2006, College Station ISD provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund meets its obligations to the Texas Workforce Commission. Expenses are accrued each month until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for unemployment compensation pool members.

The Fund engages the services of Ernst & Young to conduct an independent financial audit after the close of each plan year on August 31. The audit is approved by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2005, are available at the TASB offices and have been filed with the Texas State Board of Insurance in Austin.

(continued)

### **III. OTHER INFORMATION (Continued)**

#### **D. Commitments and Contingencies**

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

#### **E. Joint Venture Shared Service Arrangements**

##### ***1. State Supplemental Visually Impaired Fund***

The District participates in a shared service arrangement for the education of students with a visual impairment, funded under State Supplemental Visually Impaired funds, TEC Section 30.002, 19 TAC 89.238(6) with 20 other districts and cooperatives and the Education Service Center, Region VI. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region VI, nor does the District have a new 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 is responsible for part of the financial activities of the shared services arrangements.

##### ***2. ESEA, Title IV, Safe and Drug-free School and Communities Act***

The District participates in a shared service arrangement to be used to develop an age-appropriate comprehensive violence and drug/alcohol education prevention program. The shared services arrangement is funded under ESEA, Title IV, Safe and Drug-free School and Communities Act. The District participated with 38 other districts, 1 charter school, and the Education Service Center, Region VI in the fiscal year 2006 grant. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region VI, nor does the District have a new 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 is responsible for part of the financial activities of the shared services arrangements.

(continued)

### **III. OTHER INFORMATION (Continued)**

#### **F. Subsequent Event**

On September 15, 2005, the District issued \$9,350,000 of Unlimited Tax Refunding Bonds to refund existing debt. The interest rate on the bonds range from 3.875% to 5.000% and the maturity date is February 15, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

# COLLEGE STATION INDEPENDENT SCHOOL DISTRICT

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

AUGUST 31, 2006

### **Budgetary Information**

The Board of Trustees adopts an “appropriated budget” for the General Fund, Debt Service Fund, and the National School Breakfast and Lunch Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenue and expenditures for each of these funds, and compares the final amended budget to actual revenue and expenditures. The District presented the General Fund budgetary comparison schedule as required supplementary information, and the National School Breakfast and Lunch and Debt Service Funds budgetary comparison schedules are presented as required TEA schedules.

The following procedures are followed in establishing the budgetary data reflected in the 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 10 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 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. However, none of these were significant.
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.
5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year’s budget. The District had no outstanding end-of-year encumbrances.

### **Excess of Expenditures over Appropriations**

The District exceeded appropriations in the General Fund by \$38,391 in the Co-curricular/extracurricular Activities function. This overrun was funded by unexpected revenues.



**THIS PAGE LEFT BLANK INTENTIONALLY**

## COMBINING STATEMENTS

## REQUIRED TEA SCHEDULES

FEDERAL AWARDS SECTION



PATILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**REPORT ON INTERNAL CONTROL OVER FINANCIAL**

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether College Station Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported reported to management of College Station Independent School District in a separate letter dated November 1, 2006.

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

Pattillo, Brown & Hill, L.L.P.

November 1, 2006



PATTILLO, BROWN & HILL, L.L.P.  
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

Board of Trustees  
College Station Independent School District  
College Station, Texas

Members of the Board:

**Compliance**

We have audited the compliance of College Station Independent School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133, Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2006. College Station Independent School District's major federal programs are identified in





**COLLEGE STATION INDEPENDENT SCHOOL DISTRICT**

**NOTES TO SCHEDULE OF EXPENDITURES OF  
FEDERAL AWARDS**

**AUGUST 31, 2006**

**1. GENERAL**

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal award programs of College Station Independent School District. The District's reporting entity is defined in Note I of the financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule of Expenditures of Federal Awards.

**2. BASIS OF ACCOUNTING**

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note I of the financial statements.

**3. RECONCILIATION OF FEDERAL REVENUES AND THE SCHEDULE OF  
EXPENDITURES OF FEDERAL AWARDS**

Federal revenues per the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds (Exhibit C-3)	\$ 5,813,078
School health and related services revenue	<u>( 16,624)</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards (Exhibit K-1)	<u>\$ 5,796,454</u>

COLLEGE STATION INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FOR THE YEAR ENDED AUGUST 31, 2006

**Summary of Auditors' Results**

Type of report on financial statement	Unqualified
Internal control over financial reporting Material weakness(es) identified'	No
Reportable condition(s) identified that are not considered to be material weakness(es)'	None reported
Internal control over major programs Material weakness(es) identified'	No
Reportable condition(s) identified that are not considered to be material weakness(es)'	None reported
Noncompliance which is material to the basic financial statements	None
Type of report on compliance with major programs	Unqualified
Findings and questioned costs for federal awards as defined in Section 501(a), OMB Circular A-133	See below
Dollar threshold considered between Type A and Type B federal programs	\$300,000
Low risk auditee statement	The District was classified as a low-risk auditee in the context of OMB Circular A-133
Major federal programs	IDEA - Part B, CFDA #84.027; Hurricane Education Recovery Act Impact Aid, CFDA #84.938C

**Findings Relating to the Financial Statements Which are  
Required to be Reported in Accordance With Generally  
Accepted Auditing Standards**

None

(continued)

**COLLEGE STATION INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

**(Continued)**

**YEAR ENDED AUGUST 31, 2006**

**Findings and Questioned Costs for Federal Awards**

2006-1:	Grantor:	Texas Education Agency
	State Program:	IDEA – Part B
	Compliance Requirement:	Allowable Cost – Certifications
	Finding:	Upon review of the IDEA – Part B grant, the District certified employees once during the year instead of the required semi-annual certifications.
	Recommendation:	We recommend the District certify time and effort in accordance with IDEA – Part B guidelines, either monthly or semi-annually depending on how an employee’s time is allocated.

**COLLEGE STATION INDEPENDENT SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED AUGUST 31, 2006**

None

**THIS PAGE LEFT BLANK INTENTIONALLY**