

**SAN BENITO CONSOLIDATED
INDEPENDENT SCHOOL DISTRICT**

*ANNUAL FINANCIAL
AND
COMPLIANCE REPORT*

FOR THE YEAR ENDED AUGUST 31, 2006

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

SAN BENITO, TEXAS

YEAR ENDED AUGUST 31, 2006

TRUSTEES

Bob Tumberlinson - President

Joe G. Gonzalez - Vice-President

Manuel Gonzales, Jr. - Secretary

Oscar de la Fuente, Jr.

Hector G. Leal

Roel Villarreal

Orlando (O. J.) Gonzalez

SUPERINTENDENT

Antonio G. Limon

BUSINESS MANAGER

Emma McCall

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
YEAR ENDED AUGUST 31, 2006

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INTRODUCTORY SECTION

CERTIFICATE OF BOARD

San Benito Consolidated Independent School District
Name of School District

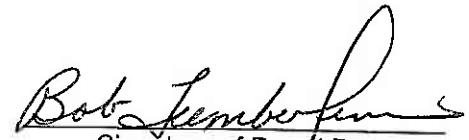
Cameron
County

031-912
Co.-Dist. Number

We, the undersigned, do hereby certify that the attached annual financial reports of the above named school district were reviewed and ✓ approved -- ___ disapproved for the year ended August 31, 2006 at a
(Check one)

meeting of the board of school trustees of such school district on the 16TH day of JANUARY, 2007.


Signature of Board Secretary


Signature of Board President

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
San Benito Consolidated Independent School District

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Benito Consolidated Independent School 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 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of San Benito Consolidated Independent School District as of August 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 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 considered in assessing the results of our audit.

The accompanying Management's Discussion and Analysis, and the General Fund - Budgetary Comparison Schedule on pages 15 through 21 and 54 through 55 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 San Benito Consolidated Independent School District's basic financial statements. The accompanying financial information listed as Other Schedules in the table of contents and the schedule of expenditures of federal awards are presented in accordance with requirements of the Texas Education Agency and for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and are not a required part of the basic financial statements. Such information except for that portion marked "Unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



LONG CHILTON, LLP

Certified Public Accountants

Harlingen, Texas
December 21, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of San Benito C.I.S.D.'s annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended August 31, 2006. Please read it in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

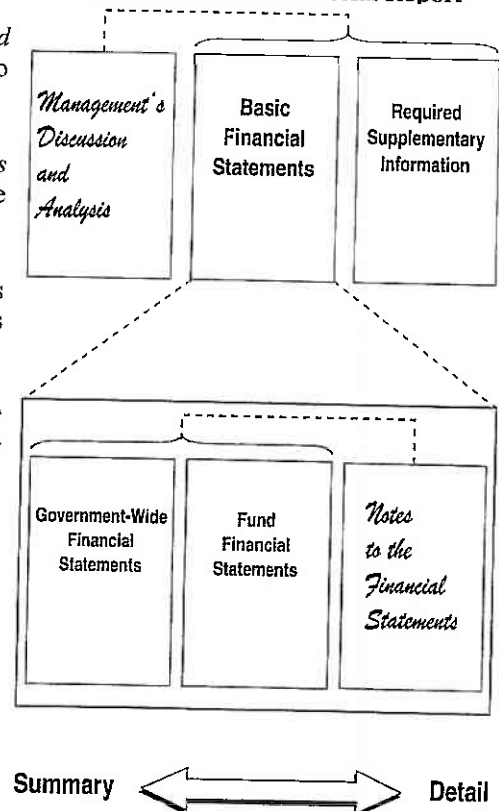
- The District's total combined net assets were \$65,711,204 at August 31, 2006. This is an increase of \$2,777,217 from the prior year.
- During the year, the District's expenses were \$ 2,777,217 less than the \$97,707,532 generated in taxes and other revenues for governmental activities.
- The general fund reported a fund balance this year of \$9,899,045.
- The District received a superior rating for the Financial Integrity Reporting System of Texas (FIRST) for 2006. This rating evaluates quality of performance in the management of school district's financial resources. This is the fourth year in a row the District receives a superior rating.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

Figure A-1, Required Components of the District's Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements

Type of Statements	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self insurance	Instances in which the district is the trustee or agent for someone else's resources
Required financial statements	* Statement of net assets	* Balance sheet	* Statement of net assets	* Statement of fiduciary net assets
	* Statement of activities	* Statement of revenues, expenditures & changes in fund balances	* Statement of revenues, expenses and changes in fund net assets * Statement of cash flows	* Statement of changes in fiduciary net assets
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

The two government-wide statements report the District's net assets and how they have changed. Net assets—the difference between the District's assets and liabilities—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the District's tax base

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services and general administration. Property taxes and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds*—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has the following kinds of funds:

- *Governmental funds*—Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information

does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

- *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-term and short-term financial information.
- The District uses *internal service funds* to report activities for its worker's compensation and employee benefits program.
- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

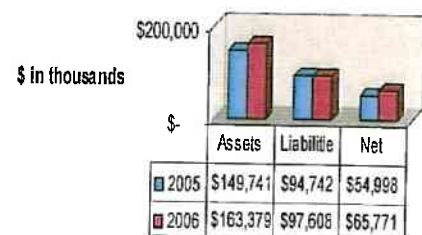
The District's combined net assets were \$65,711,204 at August 31, 2006. (See Table A-1).

Table A-1

San Benito Consolidated Independent School District's Net Assets
(In thousands dollars)

	Governmental Activities	
	2006	2005
Current and other assets	\$38,762	\$59,146
Capital assets	124,617	90,595
Total Assets	163,379	149,741
Long-term liabilities outstanding	87,629	86,911
Other liabilities	9,979	7,831
Total Liabilities	97,608	94,742
Net Assets:		
Invested in capital assets-Net of related	49,989	3,684
Restricted	2,748	7,093
Unrestricted	13,034	44,222
Total Net Assets	65,771	54,999

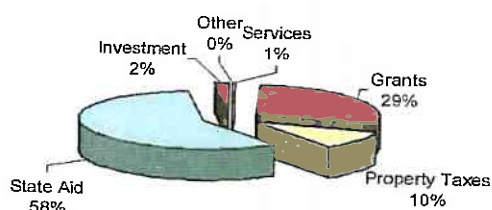
Figure A-1 San Benito CISD Net Assets



Approximately .04% of the District's net assets are subject to external restrictions on how they may be used. The \$13,034,343 of unrestricted net asset represents resources available to fund the programs of the District next year.

At the end of the current fiscal year, the District is able to report positive balances in all three categories of net assets. The same situation is true for the prior year.

Figure A-2 Sources of Revenues for FY 2005-2006



Changes in net assets. The District's total revenues were \$ 97,707,532. Approximately 10%, of the District's revenue comes from taxes. (See Figure A-3.) 87% comes from state aid – formula grants and operating grants, while only 1% relates to charges for services. The increase in local revenues of \$1.8 million is a largely due to the net result of property values increase and rising interest rates. State revenues increased due to an increase in enrollment. Increased due to higher collections in our SHARs billing program.

The total cost of all programs and services was \$94,930,315; 78% of these costs are for instructional and student services.

Governmental Activities

- Property tax rates were at the same rate 1.5694 to 1.589 as the previous year and property values increased 9% increasing tax revenues approximately \$1.1 million.
- Average daily attendance increased by 223 students.

Table A-2
Changes in San Benito Consolidated Independent School District's
Net Assets
(In thousands dollars)

	Governmental Activities	
	2006	2005
Program Revenues:		
Charges for Services	\$592	\$650
Operating Grants and Contributions	28,603	28,802
General Revenues		
Property Taxes	10,096	9,049
State Aid - Formula	56,433	52,825
Investment Earnings	1,876	1,105
Other	107	188
Total Revenues	97,707	92,618
Instruction	46,484	45,177
Instructional Resources and Media Services	1,507	1,484
Curriculum Dev. And Instructional Staff Dev	1,413	1,094
Instructional Leadership	4,446	4,133
School Leadership	4,189	3,820
Guidance, Counseling and Evaluation Services	2,886	2,796
Social Work Services	247	234
Health Services	816	789
Student (Pupil) Transportation	2,683	1,436
Food Services	6,119	5,438
Co-Curricular/Extracurricular Activities	2,793	2,421
General Administration	3,102	2,669
Plant Maintenance & Operations	11,055	10,143
Security & Monitoring Services	1,449	1,378
Data Processing Services	164	615
Community Services	886	936
Debt Service	4,097	3,986
Bond Issuance Fees	35	45
Capital Outlay	521	335
Payments to Shared Services Arrangements	-	100
Payments to Juvenile Justice Alternative	38	46
Total Expenses	94,930	89,075
Increase in Net Assets	2,777	3,543
Beginning Net Assets	54,998	47,074
Prior Period Adjustments	7,996	4,381
Ending Net Assets	\$65,771	\$54,998

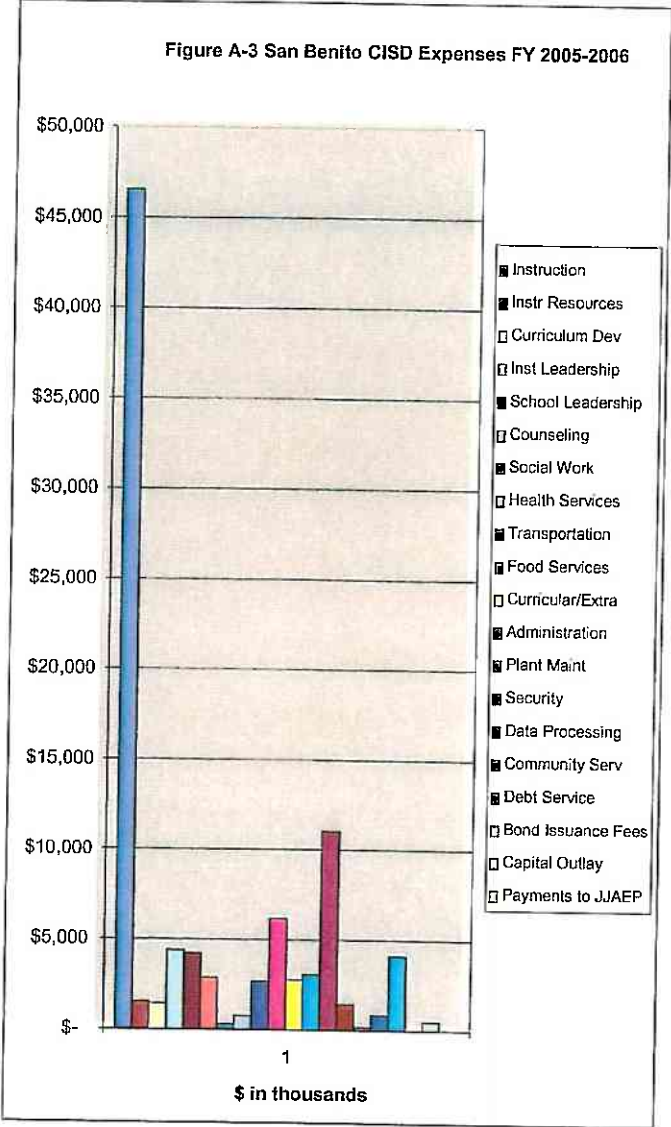


Table A-3
Net Cost of Selected District Functions
(in thousands of dollars)

	Total Cost of Services		% Change	Net Cost of Services		% Change
	2006	2005		2006	2005	
Instruction	46,482	45,176	2.9%	36,523	34,578	5.6%
School administration	4,189	3,820	9.7%	3,834	1,448	164.8%
Food Services	6,119	5,438	12.5%	695	(29)	2,496.6%
Plant Maintenance & Operations	11,055	10,143	9.0%	10,587	9,601	10.3%
Debt Service – Interest & Fiscal	4,097	3,986	2.8%	(2,190)	(2,263)	3.2%

Table A-3 presents the cost of each of the District's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$94,930,315.
- However, the amount that our taxpayers paid for these activities through property taxes was \$10,096,149.
- Some of the cost was paid by those who directly benefited from the programs \$592,818 or by grants and contributions \$28,602,742.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$97,523,030 an increase of \$1.8 million over the preceding year. The increase in local revenues of \$1.8 million is a largely due to the net result of property values increasing by about 9% combined with a \$.02 increase in the tax rate and the rising interest rates. State revenue totaled \$65,429,931 an increase of \$2.4 million over last year. The increase in state revenue was largely due to an increase in Average Daily Attendance of 223. The \$.3 million increase in federal revenues is primarily due to an increase in SHARs program revenue.

General Fund Budgetary Highlights

- Property tax collections rate was 9%.
- Average Daily Attendance was 9,631, up 223 from the prior year.
- Superior rating for the Financial Integrity Reporting System of Texas (FIRST).

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2006, the District had invested \$124,616,750 in a broad range of capital assets, including land, equipment, buildings, vehicles, and Construction in Progress. (See Table A-4.) This amount represents a net increase (including additions and deductions) of 37.5% over last year. Major capital asset events during the current fiscal year included the following:

- Purchase of the UTEX Building for use as a facility for our auxiliary functions such as maintenance and transportation.
- The District opened two additional campuses in August 2006, Riverside Middle School and Judge Oscar de la Fuente Elementary School. The Miller Jordan Campus will be closed for remodeling during the 2006-2007 school year.
- The District had several construction projects in progress as of August 31, 2006. Additional information is disclosed in footnotes to financial statements.

Table A-4
District's Capital Assets
(In thousands of dollars)

	Governmental Activities	
	2006	2005
Land	\$8,713	\$6,145
Buildings and improvements	108,645	101,115
Vehicles & Equipment	11,829	10,975
Construction in Progress	<u>32,866</u>	<u>5,227</u>
Totals at historical cost	162,053	123,462
Total accumulated	<u>37,437</u>	<u>32,868</u>
Net capital assets	<u>\$124,612</u>	<u>\$90,594</u>

Long Term Debt

At year-end the District had \$85,895,000 in bonds outstanding as shown in Table A-5. The District does not anticipate issuing new debt during the upcoming fiscal year. More detailed information about the District's debt is presented in the notes to the financial statements.

Bond Ratings

The District's bonds presently carry "AAA" ratings with underlying ratings as follows: Moody's Investor Services "Aaa" and Standard & Poors "AAA".

Table A-5
District's Long Term Debt
(In thousands of dollars)

	Governmental Activities	
	2006	2005
Compensated absences	\$ 758	\$ -
Accrued interest payable	251	46
Capital leases	725	1,509
Bonds payable	<u>85,895</u>	<u>84,915</u>
Total bonds & notes	<u>\$87,629</u>	<u>\$86,470</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for the 2006-2007 budget preparation is up \$ 39 million, about 6% from \$636 million in 2005 –2006 property values.
- There was a decrease of 10.54 cents in the property tax rate. Maintenance and operations is at \$1.32 and interest and sinking was at \$.144 for a total rate of \$1.464
- The District's 2006-2007 refined average daily attendance was expected to increase by 2.8%.

These indicators were taken into account when adopting the general fund budget for 2006-2007. Amounts available for appropriation in the general fund budget are \$78.75 million, an increase of 8.2 percent over the 2005-2006 budget of \$72.76 million. Property taxes revenue will increase due to the increasing values; however, it will be a minimal increase due to the tax reduction as passed by the State Legislature. State revenue will increase due to the state funded salary increase and state funded property tax reduction. The District will use these increases in revenues to finance programs we currently offer.

Expenditures are budgeted to rise nearly 9.1 percent to \$ 76.98 million. The largest increments are increased staffing, and teacher salary schedule adjustments.

If these estimates are realized, the District's budgetary general fund balance is not expected to change appreciably by the close of 2006-2007.

The District will continue to renovate existing campuses and is in the final stages of completing all the projects. Proceeds from bonds issued in 2004 and 2005, respectively, will be used for these construction projects.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Office.

BASIC FINANCIAL STATEMENTS

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2006

Data Control Codes		1	Governmental Activities
ASSETS:			
1110	Cash and Cash Equivalents	\$	27,778,950
1225	Property Taxes Receivable (Net)		2,264,039
1240	Due from Other Governments		6,830,077
1250	Accrued Interest		1,016
1290	Other Receivables (Net)		239,407
1300	Inventories		317,075
1410	Deferred Expenses		730,625
1420	Capitalized Bond and Other Debt Issuance Costs		513,154
1430	Premium on Issuance of Bonds		87,396
1490	Other Current Assets		685
Capital Assets:			
1510	Land		8,713,223
1520	Buildings and Improvements, Net		77,882,326
1530	Furniture and Equipment, Net		5,199,366
1580	Construction in Progress		32,821,835
1000	Total Assets		<u>163,379,174</u>
LIABILITIES:			
2110	Accounts Payable		6,483,988
2140	Interest Payable		82,209
2165	Accrued Liabilities		3,299,147
2180	Due to Other Governments		262
2300	Unearned Revenue		113,693
Noncurrent Liabilities:			
2501	Due Within One Year		4,368,767
2502	Due in More Than One Year		83,259,904
2000	Total Liabilities		<u>97,607,970</u>
NET ASSETS			
3200	Invested in Capital Assets, Net of Related Debt		49,988,800
Restricted For:			
3820	Federal and State Programs		954,256
3850	Debt Service		1,793,805
3900	Unrestricted		13,034,343
3000	Total Net Assets	\$	<u>65,771,204</u>

The accompanying notes are an integral part of this statement.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2006

EXHIBIT B-1

Data Control Codes	Functions/Programs	1 Expenses	3 Charges for Services	4 Program Revenues		Net (Expense) Revenue and Changes in Net Assets
				Operating Grants and Contributions	Governmental Activities	
	Government Activities:					
11	Instruction	\$ 46,482,690	\$ 12,187	\$ 9,946,983	\$ (36,523,520)	
12	Instructional Resources and Media Services	1,505,965	490	104,123	(1,401,352)	
13	Curriculum and Staff Development	1,413,094	126	973,844	(439,124)	
21	Instructional Leadership	4,446,318	217	3,156,437	(1,289,664)	
23	School Leadership	4,188,671	1,683	353,434	(3,833,554)	
31	Guidance, Counseling, & Evaluation Services	2,886,250	608	642,652	(2,242,990)	
32	Social Work Services	246,907	23	56,715	(190,169)	
33	Health Services	815,967	310	73,162	(742,495)	
34	Student Transportation	2,682,596	58	30,653	(2,651,885)	
35	Food Service	6,119,379	381,365	5,052,844	(685,170)	
36	Cocurricular/Extracurricular Activities	2,793,409	152,005	110,901	(2,530,503)	
41	General Administration	3,102,494	1,127	247,045	(2,854,322)	
51	Plant Maintenance and Operations	11,055,109	14,722	452,999	(10,587,388)	
52	Security and Monitoring Services	1,449,352	771	97,687	(1,350,894)	
53	Data Processing Services	164,379	69	13,204	(151,106)	
61	Community Services	886,495	64	607,546	(278,885)	
72	Interest on Long-term Debt	4,097,102	188	6,287,025	2,190,111	
73	Bond Issuance Costs and Fees	35,068	--	--	(35,068)	
81	Capital Outlay	520,798	26,805	393,851	(100,142)	
95	Payments to Juvenile Justice Alternative Ed. Programs	38,272	--	1,637	(36,635)	
TG	Total Governmental Activities	94,930,315	592,818	28,602,742	(65,734,755)	
TP	Total Primary Government	\$ 94,930,315	\$ 592,818	\$ 28,602,742	(65,734,755)	
General Revenues:						
MT	Property Taxes, Levied for General Purposes				9,178,783	
DT	Property Taxes, Levied for Debt Service				917,366	
IE	Investment Earnings				1,875,501	
GC	Grants and Contributions Not Restricted to Specific Programs				56,432,668	
MI	Miscellaneous				107,654	
TR	Total General Revenues				68,511,972	
CN	Change in Net Assets				2,777,217	
NB	Net Assets - Beginning				54,998,323	
PA	Prior Period Adjustment				7,995,664	
NB	Net Assets - Beginning, as Restated				62,993,987	
NE	Net Assets - Ending				\$ 65,771,204	

The accompanying notes are an integral part of this statement.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2006

EXHIBIT C-1

Data Control Codes	10 General Fund	60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:				
1110 Cash and Cash Equivalents	\$ 7,822,108	\$ 14,894,580	\$ 1,876,507	\$ 24,593,195
1225 Taxes Receivable, Net	1,974,759	--	289,280	2,264,039
1240 Due from Other Governments	5,031,553	--	1,798,524	6,830,077
1250 Accrued Interest	1,016	--	--	1,016
1260 Due from Other Funds	723,083	109,560	28,782	861,425
1290 Other Receivables	239,407	--	--	239,407
1300 Inventories	317,075	--	--	317,075
1410 Deferred Expenditures	730,625	--	--	730,625
1490 Other Current Assets	685	--	--	685
1000 Total Assets	<u>\$ 16,840,311</u>	<u>\$ 15,004,140</u>	<u>\$ 3,993,093</u>	<u>\$ 35,837,544</u>
LIABILITIES:				
Current Liabilities:				
2110 Accounts Payable	\$ 1,527,563	\$ 3,141,270	\$ 406,619	\$ 5,075,452
2150 Payroll Deductions & Withholdings	5,843	344,523	35,715	386,081
2160 Accrued Wages Payable	2,626,005	--	218,478	2,844,483
2170 Due to Other Funds	806,836	--	109,560	916,396
2180 Due to Other Governments	262	--	--	262
2300 Unearned Revenue	1,974,757	--	402,976	2,377,733
2000 Total Liabilities	<u>6,941,266</u>	<u>3,485,793</u>	<u>1,173,348</u>	<u>11,600,407</u>
FUND BALANCES:				
Reserved Fund Balances:				
3410 Investments in Inventory	317,074	--	--	317,074
3420 Debt Service	--	--	1,793,805	1,793,805
3430 Prepaid Items	730,625	--	--	730,625
3490 Other Reserves of Fund Balance	97,533	--	--	97,533
Designated Fund Balance:				
3510 Construction	--	11,518,347	--	11,518,347
3590 Other Designated Fund Balance	1,798,589	--	--	1,798,589
3600 Unreserved	6,955,224	--	--	6,955,224
Unreserved, Reported in Nonmajor:				
3610 Special Revenue Funds	--	--	1,021,540	1,021,540
3630 Permanent Funds	--	--	4,400	4,400
3000 Total Fund Balances	<u>9,899,045</u>	<u>11,518,347</u>	<u>2,819,745</u>	<u>24,237,137</u>
4000 Total Liabilities and Fund Balances	<u>\$ 16,840,311</u>	<u>\$ 15,004,140</u>	<u>\$ 3,993,093</u>	<u>\$ 35,837,544</u>

The accompanying notes are an integral part of this statement.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
AUGUST 31, 2006**

Total fund balances - governmental funds balance sheet	\$ 24,237,137
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds.	124,616,749
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	2,264,040
The assets and liabilities of internal service funds are included in governmental activities in the SNA.	1,763,606
Payables for bond principal which are not due in the current period are not reported in the funds.	(85,895,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(724,635)
Payables for bond interest which are not due in the current period are not reported in the funds.	(333,506)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(757,740)
Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds.	600,553
Net assets of governmental activities - statement of net assets	\$ <u>65,771,204</u>

The accompanying notes are an integral part of this statement.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES****IN FUND BALANCES - GOVERNMENTAL FUNDS****FOR THE YEAR ENDED AUGUST 31, 2006**

Data Control Codes	10 General Fund	60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ 10,304,505	\$ 1,143,561	\$ 1,030,817	\$ 12,478,883
5800 <i>State Program Revenues</i>	57,440,115	--	7,989,816	65,429,931
5900 <i>Federal Program Revenues</i>	6,346,953	--	13,267,263	19,614,216
5020 <i>Total Revenues</i>	<u>74,091,573</u>	<u>1,143,561</u>	<u>22,287,896</u>	<u>97,523,030</u>
EXPENDITURES:				
Current:				
0011 <i>Instruction</i>	35,416,378	--	8,855,581	44,271,959
0012 <i>Instructional Resources and Media Services</i>	1,362,602	--	60,278	1,422,880
0013 <i>Curriculum and Staff Development</i>	370,913	--	964,071	1,334,984
0021 <i>Instructional Leadership</i>	1,047,575	--	3,153,966	4,201,541
0023 <i>School Leadership</i>	3,737,644	--	220,180	3,957,824
0031 <i>Guidance, Counseling, & Evaluation Services</i>	2,153,669	--	573,376	2,727,045
0032 <i>Social Work Services</i>	180,909	--	52,564	233,473
0033 <i>Health Services</i>	720,511	--	50,680	771,191
0034 <i>Student Transportation</i>	711,184	--	33,123	744,307
0035 <i>Food Service</i>	6,168,520	--	51,736	6,220,256
0036 <i>Cocurricular/Extracurricular Activities</i>	2,561,760	--	84,870	2,646,630
0041 <i>General Administration</i>	2,421,403	--	162,772	2,584,175
0051 <i>Plant Maintenance and Operations</i>	10,490,609	--	87,643	10,578,252
0052 <i>Security and Monitoring Services</i>	1,340,995	--	52,489	1,393,484
0053 <i>Data Processing Services</i>	148,366	--	7,057	155,423
0061 <i>Community Services</i>	232,493	--	605,245	837,738
0071 <i>Principal on Long-term Debt</i>	396,422	--	3,643,258	4,039,680
0072 <i>Interest on Long-term Debt</i>	6,964	--	3,802,510	3,809,474
0073 <i>Bond Issuance Costs and Fees</i>	--	2,216	113,369	115,585
0081 <i>Capital Outlay</i>	1,492,177	29,147,566	--	30,639,743
0095 <i>Payments to Juvenile Justice Alternative</i>				
0095 <i>Education Programs</i>	38,272	--	--	38,272
6030 <i>Total Expenditures</i>	<u>70,999,366</u>	<u>29,149,782</u>	<u>22,574,768</u>	<u>122,723,916</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>				
1100 <i>Expenditures</i>	<u>3,092,207</u>	<u>(28,006,221)</u>	<u>(286,872)</u>	<u>(25,200,886)</u>
Other Financing Sources and (Uses):				
7912 <i>Sale of Real or Personal Property</i>	3,701	--	--	3,701
7913 <i>Proceeds from Capital Leases</i>	--	4,500,000	--	4,500,000
7915 <i>Transfers In</i>	--	257	784,984	785,241
7949 <i>Other Resources</i>	7,589	--	--	7,589
8911 <i>Transfers Out</i>	(3,108,758)	--	--	(3,108,758)
7080 <i>Total Other Financing Sources and (Uses)</i>	<u>(3,097,468)</u>	<u>4,500,257</u>	<u>784,984</u>	<u>2,187,773</u>
1200 <i>Net Change in Fund Balances</i>	<u>(5,261)</u>	<u>(23,505,964)</u>	<u>498,112</u>	<u>(23,013,113)</u>
0100 <i>Fund Balances - Beginning</i>	9,904,306	35,024,311	2,321,633	47,250,250
3000 <i>Fund Balances - Ending</i>	<u>\$ 9,899,045</u>	<u>\$ 11,518,347</u>	<u>\$ 2,819,745</u>	<u>\$ 24,237,137</u>

The accompanying notes are an integral part of this statement.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2006

Net change in fund balances - total governmental funds \$ (23,013,113)

Amounts reported for governmental activities in the statement of activities
("SOA") are different because:

Capital outlays are not reported as expenses in the SOA.	31,106,045
The depreciation of capital assets used in governmental activities is not reported in the funds.	(4,839,884)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	173,211
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	(36,490)
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	110,000
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	3,520,000
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	784,092
Bond issuance costs and similar items are amortized in the SOA but not in the funds	(29,483)
The accretion of interest on capital appreciation bonds is not reported in the funds.	(205,419)
(Increase) decrease in accrued interest from beginning of period to end of period	(82,209)
The net revenue (expense) of internal service funds is reported with governmental activities.	(110,754)
Proceeds of long-term debt is recognized as other financial resources in the funds but not revenue in the SOA.	(4,500,000)
Other reconciling items	(98,779)

Change in net assets of governmental activities - statement of activities \$ 2,777,217

The accompanying notes are an integral part of this statement.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET ASSETS
INTERNAL SERVICE FUNDS
AUGUST 31, 2006

Data Control Codes		Internal Service Funds
	ASSETS:	
	Current Assets:	
1110	Cash and Cash Equivalents	\$ 3,185,755
	Receivables:	
1260	Due from Other Funds	44,395
	Total Current Assets	3,230,150
1000	Total Assets	\$ 3,230,150
	LIABILITIES:	
	Current Liabilities:	
2110	Accounts Payable	\$ 1,408,537
2160	Accrued Wages Payable	58,007
	Total Current Liabilities	1,466,544
2000	Total Liabilities	1,466,544
	NET ASSETS:	
3900	Unrestricted Net Assets	1,763,606
3000	Total Net Assets	\$ 1,763,606

The accompanying notes are an integral part of this statement.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**STATEMENT OF REVENUES, EXPENSES, AND CHANGES****IN FUND NET ASSETS - INTERNAL SERVICE FUNDS****FOR THE YEAR ENDED AUGUST 31, 2006**

Data Control Codes		Internal Service Funds
OPERATING REVENUES:		
5700	<i>Local and Intermediate Sources</i>	\$ 7,379,320
5800	<i>State Program Revenues</i>	86,245
5020	Total Revenues	<u>7,465,565</u>
OPERATING EXPENSES:		
6100	<i>Payroll Costs</i>	1,757,389
6200	<i>Professional and Contracted Services</i>	7,277,893
6300	<i>Supplies and Materials</i>	537,874
6400	<i>Other Operating Costs</i>	131,768
6600	<i>Capital Outlay - Land, Buildings & Equipment</i>	199,979
6030	Total Expenses	<u>9,904,903</u>
	Operating Income (Loss)	<u>(2,439,338)</u>
NON-OPERATING REVENUES (EXPENSES):		
7956	<i>Insurance Recovery</i>	5,067
8030	Total Non-operating Revenues (Expenses)	<u>5,067</u>
	Income (Loss) before Contributions and Transfers	(2,434,271)
7915	<i>Transfers In</i>	2,323,517
1300	Change in Net Assets	<u>(110,754)</u>
0100	Total Net Assets - Beginning	1,874,360
3300	Total Net Assets - Ending	<u>\$ 1,763,606</u>

The accompanying notes are an integral part of this statement.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**STATEMENT OF CASH FLOWS****INTERNAL SERVICE FUNDS****FOR THE YEAR ENDED AUGUST 31, 2006**

	Internal Service Funds
Cash Flows from Operating Activities:	
Cash Received from Grants	\$ 86,245
Cash Receipts (Payments) for Quasi-external Operating Transactions with Other Funds	7,379,320
Cash Payments to Employees for Services	(1,757,391)
Cash Payments to Other Suppliers for Goods and Services	(8,147,512)
Other Operating Cash Receipts (Payments)	294,757
Net Cash Provided (Used) by Operating Activities	<u>(2,144,581)</u>
Cash Flows from Non-capital Financing Activities:	
Transfers From (To) Primary Government	2,323,517
Net Cash Provided (Used) by Non-capital Financing Activities	<u>2,323,517</u>
Net Increase (Decrease) in Cash and Cash Equivalents	178,936
Cash and Cash Equivalents at Beginning of Year	3,006,819
Cash and Cash Equivalents at End of Year	<u>\$ 3,185,755</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (2,434,271)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	11,169
Decrease (Increase) in Due from Other Funds	(44,395)
Increase (Decrease) in Accounts Payable	246,834
Increase (Decrease) in Accrued Interest Payable	68,867
Increase (Decrease) in Accrued Wages Payable	7,215
Total Adjustments	<u>289,690</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (2,144,581)</u>

The accompanying notes are an integral part of this statement.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT**STATEMENT OF FIDUCIARY NET ASSETS****FIDUCIARY FUNDS****AUGUST 31, 2006**

AUGUST 31, 2006		Private-purpose Trust Fund	Agency Fund
Data Control Codes		Private-Purpose Trust Fund	Student Activity
ASSETS:			
1110	Cash and Cash Equivalents	\$ 5,100	\$ 320,031
1490	Other Current Assets	4,100	--
1000	Total Assets	<u>\$ 9,200</u>	<u>\$ 320,031</u>
LIABILITIES:			
Current Liabilities:			
2190	Due to Student Groups	\$ --	\$ 320,031
2300	Unearned Revenues	5,100	--
2000	Total Liabilities	<u>5,100</u>	<u>320,031</u>
NET ASSETS			
3800	Held in Trust	4,100	--
3000	Total Net Assets	<u>\$ 4,100</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2006

NOTE A - REPORTING ENTITY

This report includes the financial statements of the funds required to account for those activities, organizations and functions which are related to the San Benito Consolidated Independent School District (the District) and which are controlled by or dependent upon the District's governing body, the Board of Trustees. The Board of Trustees (the Board), includes seven eligible members elected at large by the qualified voters of the San Benito Consolidated Independent School District, the Board has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (TEA) or to the State Board of Education are reserved for the Board, and TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board.

The District receives funding from local, state and federal government sources and must comply with the applicable requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined by GASB Statement No. 14 *The Financial Reporting Entity* since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. There are no component units with the reporting entity. The District is a governmental entity exempt from federal income taxation under Internal Revenue Code Section 115.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

San Benito Consolidated Independent School District's (the "District") basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (the "Resource Guide"). The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles.

1. *Basis of Presentation*

Government-Wide Statements:

The government-wide financial statements consist of the statement of net assets and the statement of activities. These statements report information on all of the non-fiduciary activities of the District. The effect of the interfund activity has been removed from these statements. The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Program revenues include charges to customers and grants used for operational requirements. Governmental activities are supported by tax revenues, state aid, charges for services, investment earnings and intergovernmental revenues such as grants.

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

Separate financial statements are provided for governmental funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2006

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Fund Financial Statements:

The accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures, or expenses, as appropriate. Government resources are allocated to, and accounted for the purpose of, carrying on specific activities in accordance with laws, regulations, or other appropriate requirements. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

The District reports the following major governmental funds:

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

Capital Projects Fund. The District uses this fund to account for bond proceeds used for construction.

The District reports the following fund types:

Special Revenue Fund. The Special Revenue Funds are the funds that account for state and federally financed programs or expenditures legally restricted for specified purposes or where unused balances are returned to the grantor at the close of specified project periods. This fund type also includes child care operations, food concessions, scholarship and food service operations, which is allowed to maintain a fund balance; such balances are to be used exclusively for allowable child nutrition program purposes. The food service fund is the only Special Revenue Fund that is required to be budgeted. For all other funds in this fund-type, project accounting is employed to maintain integrity for the various sources of funds.

Agency Funds. These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary Funds. These funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

In addition, the District reports the following proprietary fund:

Internal Service Fund. The District uses this fund to account for claim payments and administrative costs paid for the modified self-funded workers' compensation plan provided for the employees.

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

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2006

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

2. Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements:

These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they become available and measurable. The District considers revenues as available if they are collected within the 60 days after year end. Revenues susceptible to accrual are property taxes, fiscal year state funding, and interest revenues. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures in to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Unearned revenue is reported in the governmental funds when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures.

In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, the liability for deferred revenue is removed and revenue is recognized.

3. Budgets

The official school budget was prepared for adoption for required Governmental Fund Types by August 20, 2005. The budget was formally adopted by the board of school trustees at a duly advertised public meeting prior to the expenditure of funds. The budget was amended by the board of school trustees throughout the year. Expenditures may not legally exceed budgeted appropriations at the function level.

4. Cash and Cash Equivalents

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

5. Investments

Money market investments which are short-term, highly liquid debt instruments including commercial paper, bankers' acceptances and U.S. Treasury and agency obligations are reported at fair value.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2006

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

6. Inventory

Inventory is valued at cost (average). The District accounts for the food inventory by using the purchase method whereby purchases of inventories are recognized as expenditures when the goods are received. The District accounts for school supply and maintenance inventory by the consumption method whereby expenditures are recognized when the inventory items are used. Reported inventories are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets. Commodity inventory is offset by unearned revenue.

7. Other Current Assets

Other current assets are prepaid expenses that will benefit periods beyond August 31, 2006. The only prepaid expenses included are for unexpired insurance policy premiums paid by August 31, 2006, and which extend beyond that date. The reported prepaid insurance is equally offset by a fund balance reserve, which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

8. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Assets Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	52
Buildings Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

9. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

10. Long-term Obligations

In government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Bond premiums and discounts, as well as issuance costs, are 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. Premiums received and discounts incurred on debt issuances are reported as other financing sources and uses. Issuance costs, whether or not withheld from debt proceeds, are reported as debt service requirements.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2006

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

11. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

12. Compensated Absences

The District's policy allows employees who retire and have accumulated unused state leave to be paid \$40 per day for any unused leave at the time of retirement.

13. Accounting System

In accordance with the Resource Guide, the District has adopted and installed an accounting system which meets at least the minimum requirements prescribed by the State Board of Education and approved by the State Auditor. Specifically, the District's accounting system uses codes and the code structure prescribed by TEA in the Resource Guide. Mandatory codes are recorded in the order provided in that section.

14. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to insure accuracy in building a State-wide database for policy development and funding plans.

15. Encumbrance Accounting

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at August 31st and encumbrances outstanding at that time are either cancelled or appropriately provided for in the subsequent year's budget.

NOTE C - CASH AND INVESTMENTS

Investment Accounting Policy

The District is required by Government Code Chapter 2256, The Public Funds Investment Act (the "Act"), 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.

The Act requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies; the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED AUGUST 31, 2006

NOTE C - CASH AND INVESTMENTS - Continued

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

The Act determines the types of investments, which are allowable for the District. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, 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 District's policy authorizes all the State allowable investments.

The District's management believes that it has complied in all material respects with the requirements of the act and the District's investment policies.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act, the District's investment policy, and Government Code Chapter 2257 "Collateral For Public Funds" contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments. To be eligible to receive funds from and invest funds on behalf of an entity under this chapter, a public fund investment pool created to function as a money market mutual fund must mark its portfolio to market daily, and to the extent reasonable possible, stabilize at a \$1 net asset value. If the ratio of the market value of the portfolio divided by the book value of the portfolio is less than .9995 or greater than 1.0005, portfolio holdings shall be sold as necessary to maintain the ratio between .9995 and 1.0005.

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

Cash Deposits

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 \$23,097,456 and the bank balance was \$27,348,711. The District's cash deposits at August 31, 2006 and during the year ended August 31, 2006 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name. However, during the month of February 2006, the District was undercollateralized by \$1,565,598.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED AUGUST 31, 2006

NOTE C - CASH AND INVESTMENTS – Continued

The District's cash deposits at August 31, 2006 are maintained primarily at First National Bank, San Benito, Texas. These deposits were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank. The deposits were collateralized in accordance with Texas Law, and the Texas Education Agency maintains copies of all safekeeping receipts in the name of the District.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: First National Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$62,457,191.
- c. The highest combined balances of cash, savings and time deposit accounts amounted to \$55,172,274 and occurred during the month of December 2005.
- d. Total amount of FDIC coverage at the time of largest combined balance was \$300,000.

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Concentration of Credit Risk

The Investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Public Funds Investment Act ("PFIA"). There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total District investments.

Public Funds Investment Pools

The District had no funds in a public funds investment pool.

NOTE D - PROPERTY TAX

Property taxes are levied by October 1 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 1 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 and those expected to be collected during a 60 day period after the close of the school fiscal year.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED AUGUST 31, 2006

NOTE D - PROPERTY TAX - Continued

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. The District's 2006 tax rate was \$1.4450 for maintenance and \$.1440 for debt service per \$100 assessed valuation. The 2006 assessed valuation was \$636,639,688. Allowances for uncollectibles within the General and Debt Service Funds are based upon 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. At August 31, 2006 outstanding taxes in the general fund and debt service fund was \$2,142,231 and \$321,423 with a corresponding allowance for doubtful accounts of \$214,223 and \$32,142.

NOTE E - DUE FROM AND TO OTHER GOVERNMENTS AND AGENCIES

	<u>Due From</u>	<u>Due To</u>
Governmental Funds:		
<i>General Fund:</i>		
Texas Education Agency: Foundation revenues	\$4,056,444	\$ -
<i>Other Governmental Funds:</i>		
Texas Education Agency:		
Commodity Supplemental Food Program	260,629	-
Gifted and Talented	9,395	-
Career and Technology	150,401	-
Special Education	234,357	-
State Compensatory Education Fund	287,796	-
Bilingual Education	32,532	-
ESEA, Title IV, Part A - Safe and Drug Free Schools	12,597	-
ESEA, Title I, Part A - Improving Basic Programs	301,177	-
ESEA, Title II, Part C - Education of Migratory Children	64,694	-
ESEA, Title II, Part A - Teacher and Principal Training	37,675	-
ESEA, Title II, Part D - Enhancing Education through Technology	15	-
ESEA, Title III, Part A - English Language Acquisition and Language Enhancement	184	-
ESEA, Title IV, Part B - 21 st Century Community Learning	601,713	-
ESEA, Title IV, Community Service	393	-
IDEA-B Formula	79,910	-
Vocational Education - Basic Grant	8,747	-
Reading First	454,928	-
T-1 School Improvement	17,079	-
Math Professional Development	33,293	-
Gear Up/Region One ESC	24,391	-
Pregnancy, Education and Parenting Program	1,295	-
State-Funded Optional Extended Year Program	68,219	-
Texas Ready to Read Program	33,467	-
Student Success Initiative	2,542	-
Chess Tournament - Host	56,206	-
	<u>2,773,635</u>	<u>-</u>
Total governmental funds	<u>\$6,830,079</u>	<u>\$ -</u>
Fiduciary Funds		
Agency-Tax Collections	\$ -	\$ 261
Total fiduciary funds	<u>\$ -</u>	<u>\$ 261</u>

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED AUGUST 31, 2006

NOTE F – CAPITAL ASSETS

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

	General Fixed Assets Sept. 1, 2005	Additions	Deletions	Transfers	General Fixed Assets Aug. 31, 2006
Governmental activities					
Capital assets not being depreciated					
Land	\$ 8,666,403	\$ 46,820	\$ -	\$ -	\$ 8,713,223
Construction in progress	5,227,295	27,683,790	-	(44,625)	32,866,460
Total capital assets not being depreciated	<u>13,893,698</u>	<u>27,730,610</u>	<u>-</u>	<u>(44,625)</u>	<u>41,579,683</u>
Capital assets being depreciated					
Building and improvements	106,342,441	2,257,939	-	44,625	108,645,005
Equipment	5,691,161	670,020	-	-	6,361,181
Vehicles	5,291,617	447,475	270,808	-	5,468,284
Total capital assets being depreciated	<u>117,325,219</u>	<u>3,375,434</u>	<u>270,808</u>	<u>44,625</u>	<u>120,474,470</u>
Less accumulated depreciation for:					
Building and improvements	26,762,142	4,045,163	-	-	30,807,305
Equipment	2,854,094	492,042	-	-	3,346,136
Vehicles	3,252,092	302,679	270,808	-	3,283,963
Total accumulated depreciation	<u>32,868,328</u>	<u>4,839,884</u>	<u>270,808</u>	<u>-</u>	<u>37,437,404</u>
Total capital assets being depreciated, net	<u>84,456,891</u>	<u>(1,464,450)</u>	<u>-</u>	<u>44,625</u>	<u>83,037,066</u>
Governmental activities capital assets, net	<u>\$ 98,350,589</u>	<u>\$26,266,160</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$124,616,749</u>

Depreciation was charged to the following functions:

Government Activities:

11 – Instruction	\$2,493,508
12 – Instructional Resources and Media Services	80,826
13 – Curriculum and Staff Development	75,986
21 – Instructional Leadership	238,122
23 – School Leadership	224,571
31 – Guidance, Counseling and Evaluation Services	154,876
32 – Social Work Services	13,068
33 – Health Services	43,559
34 – Student Transportation	143,745
35 – Food Services	328,144
36 – Cocurricular/Extracurricular Activities	150,036
41 – General Administration	166,492
51 – Plant Maintenance and Operations	592,886
52 – Security and Monitoring Services	77,922
53 – Data Processing Services	8,712
61 – Community Services	47,431
	<u>\$4,839,884</u>

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED AUGUST 31, 2006

NOTE G -- CONSTRUCTION COMMITMENTS

Construction in progress at August 31, 2006 is comprised of the following:

	Estimated Project Costs	Expended Through August 31, 2006	Amount Committed
Riverside Middle School	\$13,730,000	\$13,587,328	\$ 142,672
Judge Oscar de la Fuente Elementary	6,455,410	6,270,253	185,157
Dr. Cash Elementary Additions	3,798,000	3,711,368	86,632
San Benito HS Science Labs	1,688,288	918,899	769,389
Sonny Brazil Agriculture Science Complex	3,009,256	2,858,793	150,463
Bobby Morrow Stadium	4,554,167	3,950,741	603,426
	<u>\$33,235,121</u>	<u>\$31,297,382</u>	<u>\$1,937,739</u>

In addition to the amounts committed above, the District estimates that approximately \$11,000,000 of additional construction is anticipated from remaining capital project funds.

NOTE H -- RESTRICTED ASSETS

Restricted assets of \$1,569,077 at August 31, 2006, consisted of restricted cash balances relating to retainage agreements on the District's construction projects.

NOTE I - LONG-TERM OBLIGATIONS

Long-term obligations include bonds payable, loans payable, and compensated absences. Changes in long-term obligations for the year ended August 31, 2006 are as follows:

	Beginning Balance Sept. 1, 2005	Increase	Decrease	Balance Aug. 31, 2006	Due Within One Year
Governmental Activities					
General Obligation Bonds:					
Unlimited Tax School Building Bonds -- Series 1996	\$ 4,110,000	\$ -	\$1,020,000	\$ 3,090,000	\$ 710,000
Unlimited Tax School Building Bonds -- Series 1998	4,285,000	-	1,000,000	3,285,000	1,000,000
Unlimited Tax School Building Bonds -- Series 2000	8,145,000	-	680,000	7,465,000	715,000
Unlimited Tax School Building Bonds -- Series 2004	36,835,000	-	705,000	36,130,000	725,000
Unlimited Tax School Building Bonds -- Series 2005	28,970,000	-	115,000	28,855,000	505,000
Unlimited Tax Refunding CAB Bonds -- Series 2005	565,000	-	-	565,000	-
Unlimited Tax School Building and Refunding Bonds -- Series 2005	800,000	-	-	800,000	-
Unlimited Tax School Building and Refunding CAB Bonds -- Series 2005	1,205,000	-	-	1,205,000	-
Lease Revenue Bonds -- Series 2006	-	4,500,000	-	4,500,000	-
Total general obligation bonds	84,915,000	4,500,000	3,520,000	85,895,000	3,655,000
Accrued Interest Unlimited Tax Refunding CAB Bonds -- Series 2005	40,589	140,116	-	180,705	-
Accrued Interest Unlimited Tax School Building and Refunding CAB Bonds - Series 2005	5,289	65,303	-	70,592	-
Capital Leases	1,508,727	-	784,092	724,635	600,106
Compensated absences	-	757,740	-	757,740	113,661
Total governmental activities	<u>\$86,469,605</u>	<u>\$5,463,159</u>	<u>\$4,304,092</u>	<u>\$87,628,672</u>	<u>\$4,368,767</u>

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2006

NOTE I - LONG-TERM OBLIGATIONS -- Continued

General Obligation Bonds:

Bonds payable at August 31, 2006 are comprised of the following individual issues:

On December 15, 1995, the District issued \$10,240,000 Unlimited Tax School Building and Refunding Bonds Series 1996. The bonds comprise of \$10,045,000 Current Interest Bonds with interest rates ranging from 3.90% to 5.00% and \$195,000 in premium capital appreciation bonds. The current interest bonds mature in years 1997 through 2013 in installments ranging from \$100,000 to \$1,140,000. The premium capital appreciation bonds matured and were paid on February 15, 2004 and 2005, in the amount of \$640,000 and 645,000, respectively. The bonds were issued to provide funds sufficient to (1) pay the costs of constructing and equipping school buildings in the District in the approximate amount of \$3,600,000 (2) refund \$6,640,000 of outstanding indebtedness of the District.	\$3,090,000
On February 1, 1998, the District sold \$23,030,000 Unlimited Tax School Building Bonds Series 1998. The bonds mature in years 1999 through 2018 with interest rates ranging from 4.25% to 5.00% in installments ranging from \$85,000 to \$1,910,000. Proceeds from the sale of the Bonds were used to improve and equip existing elementary schools and to improve existing middle schools and high school.	3,285,000
On December 11, 1999, an election to authorize the District to sell \$26,305,000 Unlimited Tax School Building Bonds Series 2000, passed by a majority of the participating voters. The bonds mature in years 2001 through 2024 with interest rates ranging from 4.50% to 5.20% in installments ranging from \$605,000 to \$1,970,000. Proceeds from the sale of the Bonds were used for the construction of a new elementary school, a new ninth grade/academy campus and various new elementary school classroom wings.	7,465,000
On May 15, 2004, an election to authorize the District to sell \$37,670,000 Unlimited Tax School Building Bonds Series 2004, passed by a majority of the participating voters. The Bonds comprised of \$19,260,000 in current interest serial bonds and \$18,410,000 in current interest term bonds. Current interest serial bonds mature in years 2005 through 2024 with interest rates ranging from 2% to 5% in installments ranging from \$705,000 to \$1,400,000. Term bonds mature in February 15, 2029 and February 15, 2034 in the amount of \$8,085,000 and \$10,325,000, respectively. Interest rates on term bonds are 4.75% and 5.00% in years 2029 and 2034, respectively. Proceeds from the sale of the Bonds were used to construct and equip school building and to purchase the necessary sites for construction.	36,130,000
On May 15, 2004, an election to authorize the District to sell \$2,005,000 Unlimited Tax School Building and Refunding Bonds Series 2005, passed by a majority of the participating voters. The bonds comprise of \$800,000 Current Interest Bonds with an interest rate 4.50% maturing February 15, 2025 and \$1,205,500 in capital appreciation bonds. Capital appreciations bonds mature in years 2008 through 2020 in installments ranging from \$140,000 to \$145,000 with interest rates ranging from 3.35% to 4.95%. The bonds were issued to equip school buildings including a football stadium and to purchase the necessary sites for construction.	2,005,000

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED AUGUST 31, 2006

NOTE I - LONG-TERM OBLIGATIONS – Continued

On April 15, 2005, the District issued \$29,880,000 Unlimited Tax Refunding Bonds Series 2005. The bonds comprise of \$29,315,000 Current Interest Bonds with interest rates ranging from 3% to 5% and \$565,000 premium capital appreciation bonds. The current interest bonds mature in years 2005 through 2025 in installments ranging from \$115,000 to \$2,760,000. Capital appreciation bonds mature on February 15, 2010 in the amount of \$1,545,000 with an interest rate of 3.75%. The bonds were issued to refund certain outstanding unlimited tax obligations of the District in order to reduce the annual debt service of the District.

\$29,420,000

On February 13, 2006, the District issued \$4,500,000 Lease Revenue Bonds Series 2006. The bonds mature in years 2007 through 2026 in installments ranging from \$150,000 to \$345,000 with interest rates ranging from 4.01% to 4.68%. The bonds were issued to equip school buildings including a football stadium.

4,500,000

\$85,895,000

Debt service requirements on long-term debt at August 31, 2006 are as follows:

Year Ending August 31,	General Obligation Bonds		Accrued Interest CAB Bonds	Total Requirement
	Principal	Interest		
2007	\$ 3,700,000	\$ 3,872,144	\$ 23,893	\$ 7,596,037
2008	4,116,107	3,692,180	28,676	7,836,963
2009	4,001,324	3,528,023	33,477	7,562,824
2010	2,941,524	3,710,694	1,015,000	7,667,218
2011	4,060,000	3,272,170	40,000	7,372,170
2012-2016	18,426,045	14,101,444	248,955	32,776,444
2017-2021	17,175,000	10,110,600	285,000	27,570,600
2022-2026	16,070,000	5,782,929	-	21,852,929
2027-2031	8,905,000	2,761,925	-	11,666,925
2032-2036	<u>6,500,000</u>	<u>498,250</u>	-	<u>6,998,250</u>
	<u>\$85,895,000</u>	<u>\$51,330,359</u>	<u>\$1,675,001</u>	<u>\$138,900,360</u>

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

Advance Refunding of Debt

GASB Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt," provides that all refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of August 31, 2005, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments are as follows:

On April 15, 2005, \$29,880,000 in general obligation bonds with an interest from 2.5% to 4.48% percent were issued to currently refund \$29,880,000 of outstanding bonds with an interest cap of 4.9%. The net proceeds of \$32,021,492 (after payment of \$354,410 in underwriting fees, insurance, other issuance costs, interest earned of \$108,671) were used to purchase U. S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for those bonds have been removed from the financial statements. This refunding decreases total debt service payments over the next twenty-one years by \$1,922,273 resulting in an economic gain of \$1,279,937.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2006

NOTE I - LONG-TERM OBLIGATIONS -- Continued

Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of August 31, 2006, as follows:

<u>Year Ending August 31,</u>	<u>Principal</u>	<u>Interest</u>
2007	\$600,106	\$ 25,845
2008	83,085	4,321
2009	41,444	730
	<u>\$724,635</u>	<u>\$ 30,897</u>

NOTE J - REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

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

	<u>General Fund</u>	<u>Capital Projects Funds</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Fund</u>	<u>Internal Service Funds</u>
Property taxes	\$ 9,010,893	\$ -	\$ 912,047	\$ 9,922,940	\$ -
Food sales	407,375	-	-	407,375	-
Investment income	620,159	1,143,562	111,779	1,875,500	73,459
Co-curricular activities	161,148	-	-	161,148	-
Other	104,930	-	6,991	111,921	7,305,862
	<u>\$10,304,505</u>	<u>\$1,143,562</u>	<u>\$1,030,817</u>	<u>\$12,478,884</u>	<u>\$7,379,321</u>

NOTE K - UNEARNED REVENUE

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
SCISD taxes	\$1,974,759	\$ 289,280	\$2,264,039
Other	-	113,694	113,694
	<u>\$1,974,759</u>	<u>\$ 402,974</u>	<u>\$2,377,733</u>

NOTE L - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund receivable and payable balances at August 31, 2006 were:

<u>Due to</u>	<u>Due From</u>	
General Fund	General Fund	\$723,083
Non-Major Fund	General Fund	28,782
		751,865
Internal Service Fund	General Fund	44,395
		<u>\$796,260</u>

The remaining balances resulted from a routine lag between the dates that transactions such as year-end payroll accruals and worker's compensation adjustment payments, are made between the funds.

All amounts are scheduled to be repaid within one year.

Interfund transfers out during the year ended August 31, 2006 were as follows:

<u>Transfers Out</u>	<u>Transfers In</u>	
General Fund	Capital Projects Fund	\$ 257
General Fund	Nonmajor Governmental Funds	784,984
General Fund	Internal Service Funds	2,323,517

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED

YEAR ENDED AUGUST 31, 2006

NOTE M - GENERAL FUND FEDERAL SOURCE REVENUES

Federally financed programs are generally accounted for in the Other Governmental Funds of the District, except for indirect costs charged to federal programs which are accounted for in the General Fund as prescribed by the TEA and certain direct revenues. The District recognized in the General fund such revenues for the year ended August 31, 2006, from various federal sources as follows:

<u>Programs or Source</u>	<u>CFDA Number</u>	<u>Amount</u>
National School Lunch Program	10.555	\$3,587,081
School Breakfast Program	10.553	1,534,533
Commodity Supplemental Food Program	10.550	235,631
SHARS/Medicaid	N/A	645,878
Medicaid Administrative Claim	N/A	124,486
ROTC	12.113	46,930
Payment in Lieu of Taxes		485

Indirect Costs

Fiscal Year 2005-2006 Programs

ESEA Title IV, Part A – Safe and Drug-Free Schools and Communities Act	84.186A	1,502
ESEA Title I, Part A – Improving Basic Programs	84.010A	86,915
ESEA Title I, Part C – Education of Migratory Children	84.010	10,718
IDEA-B Formula	84.027	29,980
IDEA-B Preschool	84.173	394
ESEA Title II, Part A – Teacher & Principal Training & Recruiting	84.367A	12,588
Reading First	84.357	24,153
Title II, Part D – Enhancing Education Through Technology	84.318	1,406
Title III, Part A – English Language Acquisition and Language Enhancement	84.365A	3,667
Title V, Part A – Innovative Programs	84.298	606
Total general fund federal revenue		<u>\$6,346,953</u>

NOTE N – COMPLIANCE AND ACCOUNTABILITY

a. Finance-Related Legal and Contractual Provision

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations.

School districts in Texas must comply with constitutional provisions, statutory laws, public policy established by common law, Title 19 of the Texas Administrative Code, and with regulations of the Texas Education Agency.

Instances were noted in which expenditures exceeded budgeted amounts at the functional level as detailed in the General Fund – Budgetary Comparison Schedule (Exhibit G-1) for the following fund:

<u>Function Code</u>	<u>Budget</u>	<u>Actual</u>	<u>Variances</u>
General Fund:			
23 School Leadership	\$ 3,624,808	\$ 3,737,644	\$(112,836)
31 Guidance, Counseling and Evaluation Services	2,053,700	2,153,669	(99,969)
51 Plant Maintenance and Operations	10,248,718	10,490,609	(241,891)
71 Principal on Long-term Debt	391,439	396,422	(4,983)

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2006

NOTE N – COMPLIANCE AND ACCOUNTABILITY - Continued

b. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Amount</u>	<u>Remarks</u>
None noted	None noted	No remarks necessary

NOTE O - CONTINGENT LIABILITIES

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

The District participates in numerous state and federal 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, if any, refunds of any money received may be required and the collectibility of any related receivable at August 31, 2006 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.

Obligations under the construction contracts in existence at August 31, 2006 are expected to be liquidated within the following reporting period.

NOTE P - PENSION PLAN OBLIGATIONS

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.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2006

NOTE P - PENSION PLAN OBLIGATIONS – Continued

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 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. State contributions to TRS made on behalf of the District's employees for the years ended August 31, 2004, 2005 and 2006 were \$2,295,909, \$3,120,570 and \$3,262,538, respectively. The District paid additional state contributions for the years ended August 31, 2004, 2005 and 2006 in the amount of \$211,076, \$236,750 and \$263,229, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

NOTE Q - RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters; During fiscal year 2006, the District purchased commercial insurance to cover general liabilities.

State law allows school districts to retain risk through its own risk management program, insure through a commercial carrier, or insure through a public entity risk pool. The District is self-insured for employee medical benefits (including medical and dental). Beginning October 1, 2005, the District contracted with a third-party, American Administrative Group, Inc. to provide administrative claims processing services for employee medical benefits for the District. Beginning September 1, 2004, the District contracted with a third-party administrator, Health Administration Services to provide administrative claims processing services for worker's compensation claims for the District.

The group health insurance program is reported in the Insurance fund, an internal service fund. Workman's compensation insurance programs are reported in the Worker's Compensation fund, an internal service fund. Interfund premiums are paid into the internal service and are based primarily on claims experience and are reported as quasi-external transactions.

Accruals for claims are adjusted on a regular basis based on the latest information available on each case. Claims incurred but not reported have been considered in determining the accrual for claims, and the District's management believes adequate accruals have been provided at August 31, 2006.

There were no significant reductions in coverage in the past fiscal year by major category of risk. In addition, there were no insurance settlements exceeding insurance coverage in any of the past three fiscal years.

The District maintains a \$1,000,000 stop-loss policy each for health and worker's compensation self-funded insurance programs.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
YEAR ENDED AUGUST 31, 2006

NOTE Q - RISK MANAGEMENT - Continued

Changes in the balance of claims liabilities during the past year are as follows:

	August 31,	
	<u>2006</u>	<u>2005</u>
Unpaid claims, beginning of year	\$1,205,187	\$1,364,794
Incurred claims (including IBNR's)	6,889,180	7,219,728
Claim payments	<u>(7,014,647)</u>	<u>(7,379,335)</u>
Unpaid claims, end of fiscal year	<u>\$1,079,720</u>	<u>\$1,205,187</u>

NOTE R - PRIOR PERIOD ADJUSTMENT

The District recorded adjustments to beginning net assets in the Statement of Activities as follows:

Capital assets, at cost not recorded in the previous year	\$7,755,821
Correction of interest accretion	776,273
Compensated absences which were not recorded in prior year	(721,250)
To correct capitalized bond and other debt issuance costs	427,654
To record prior year premium on bond issuance, not recorded in prior year	92,379
Correction of capital lease obligations	<u>(335,213)</u>
	<u>\$7,995,664</u>

REQUIRED SUPPLEMENTARY INFORMATION

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2006

EXHIBIT G-1
Page 1 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
REVENUES:					
5700	Local and Intermediate Sources	\$ 9,609,024	\$ 9,609,024	\$ 10,304,505	\$ 695,481
5800	State Program Revenues	57,166,802	57,361,802	57,440,115	78,313
5900	Federal Program Revenues	5,980,271	6,017,511	6,346,953	329,442
5020	Total Revenues	<u>72,756,097</u>	<u>72,988,337</u>	<u>74,091,573</u>	<u>1,103,236</u>
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	36,754,966	36,522,786	35,416,378	1,106,408
0012	Instructional Resources and Media Services	1,417,270	1,439,953	1,362,602	77,351
0013	Curriculum and Staff Development	373,100	454,455	370,913	83,542
	Total Instruction & Instr. Related Services	<u>38,545,336</u>	<u>38,417,193</u>	<u>37,149,893</u>	<u>1,267,300</u>
Instructional and School Leadership:					
0021	Instructional Leadership	1,096,636	1,098,926	1,047,575	51,351
0023	School Leadership	3,661,381	3,624,808	3,737,644	(112,836)
	Total Instructional & School Leadership	<u>4,758,017</u>	<u>4,723,734</u>	<u>4,785,219</u>	<u>(61,485)</u>
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	2,192,537	2,053,700	2,153,669	(99,969)
0032	Social Work Services	156,450	197,650	180,909	16,741
0033	Health Services	733,471	740,540	720,511	20,029
0034	Student (Pupil) Transportation	669,389	780,143	711,184	68,959
0035	Food Services	6,006,268	6,389,156	6,168,520	220,636
0036	Cocurricular/Extracurricular Activities	2,333,915	2,569,071	2,561,760	7,311
	Total Support Services - Student (Pupil)	<u>12,092,030</u>	<u>12,730,260</u>	<u>12,496,553</u>	<u>233,707</u>
Administrative Support Services:					
0041	General Administration	2,699,951	2,541,441	2,421,403	120,038
	Total Administrative Support Services	<u>2,699,951</u>	<u>2,541,441</u>	<u>2,421,403</u>	<u>120,038</u>
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	9,628,699	10,248,718	10,490,609	(241,891)
0052	Security and Monitoring Services	1,288,096	1,377,799	1,340,995	36,804
0053	Data Processing Services	168,000	149,940	148,366	1,574
	Total Support Services - Nonstudent Based	<u>11,084,795</u>	<u>11,776,457</u>	<u>11,979,970</u>	<u>(203,513)</u>
Ancillary Services:					
0061	Community Services	240,681	254,456	232,493	21,963
	Total Ancillary Services	<u>240,681</u>	<u>254,456</u>	<u>232,493</u>	<u>21,963</u>
Debt Service:					
0071	Principal on Long-Term Debt	555,080	391,439	396,422	(4,983)
0072	Interest on Long-Term Debt	90,776	30,476	6,964	23,512
	Total Debt Service	<u>645,856</u>	<u>421,915</u>	<u>403,386</u>	<u>18,529</u>
Capital Outlay:					
0081	Capital Outlay	435,000	1,556,540	1,492,177	64,363
	Total Capital Outlay	<u>435,000</u>	<u>1,556,540</u>	<u>1,492,177</u>	<u>64,363</u>
Intergovernmental Charges:					
0095	Payments to Juvenile Justice Alternative Ed. Program	55,000	55,000	38,272	16,728

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2006

EXHIBIT G-1
Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	Total Intergovernmental Charges	<u>55,000</u>	<u>55,000</u>	<u>38,272</u>	<u>16,728</u>
6030	Total Expenditures	<u>70,556,666</u>	<u>72,476,997</u>	<u>70,999,366</u>	<u>1,477,631</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>2,199,431</u>	<u>511,340</u>	<u>3,092,207</u>	<u>2,580,867</u>
	Other Financing Sources (Uses):				
7912	Sale of Real or Personal Property	--	--	3,701	3,701
7949	Other Resources	--	--	7,589	7,589
8911	Transfers Out	--	(2,888,628)	(3,108,758)	(220,130)
7080	Total Other Financing Sources and (Uses)	<u>--</u>	<u>(2,888,628)</u>	<u>(3,097,468)</u>	<u>(208,840)</u>
1200	Net Change in Fund Balance	<u>2,199,431</u>	<u>(2,377,288)</u>	<u>(5,261)</u>	<u>2,372,027</u>
0100	Fund Balance - Beginning	<u>9,904,306</u>	<u>9,904,306</u>	<u>9,904,306</u>	--
3000	Fund Balance - Ending	<u>\$ 12,103,737</u>	<u>\$ 7,527,018</u>	<u>\$ 9,899,045</u>	<u>\$ 2,372,027</u>

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED AUGUST 31, 2006

Stewardship, compliance, and accountability

Budgetary information

The Board adopts an "appropriated budget" on a basis consistent with GAAP for the general fund, debt service fund and food service fund (which is included in special revenue funds). At a minimum, the District is required to present the original and the final amended budgets for revenues and expenditures compared to actual revenues and expenditures for these three funds.

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

- Prior to August 20 for a fiscal year start date of September 1, the District prepares a budget based on the modified zero-based budgeting concept for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- After one or more budget workshops with the Board, a meeting is called for the purpose of adopting the proposed budget. At least ten days but not more than 30 days public notice of the meeting is required.
- Prior to August 31st for a fiscal year start date of September 1, the Board legally adopts the budget for the general fund, debt service fund and food service fund.
- After the budget for the above listed funds is approved, any amendment that causes an increase or decrease in a fund or functional spending category or total revenue or other resources object category requires Board approval prior to the fact. These amendments are presented to the Board at its regular monthly meeting and are reflected in the official minutes. Because the District has a policy of careful budgetary control, several budgetary amendments were necessary throughout the year.
- Expenditure budgets are controlled at the expenditure functional and object level by the appropriate budget manager (principal, department director or divisional administrator). Budget managers may authorize transfers within functional and organizational categories that do not affect the total functional and organizational appropriation. All budget appropriations lapse at year-end.

Encumbrance accounting, under which purchase orders, contracts and other commitments are recorded in order to reserve that portion of the applicable appropriation, is used in all governmental funds. Encumbrances outstanding at year-end are commitments that do not constitute expenditures or liabilities. Since appropriations lapse at the end of each year, outstanding encumbrances are appropriately provided for in the subsequent fiscal year's budget to provide for the liquidation of the prior commitments.

OTHER SCHEDULES

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2006

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
1997 and Prior Years	\$	Various	\$	Various	\$	Various
1998		1.10		.40		388,849,580
1999		1.0777		.45		354,339,632
2000		1.3032		1.058		381,801,502
2001		1.2931		.1763		425,103,794
2002		1.3119		.1581		459,437,771
2003		1.3135		.1565		496,562,820
2004		1.354		.144		536,985,918
2005		1.4254		.144		582,585,473
2006 (School Year Under Audit)		1.445		.144		636,639,688
1000 Totals						
9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code						

10 Beginning Balance 9/1/05	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/06
\$ 303,735	\$ --	\$ 6,896	\$ 2,754	\$ 149	\$ 294,234
54,364	--	3,076	1,136	--	50,152
59,902	--	3,818	1,608	(343)	54,133
78,431	--	9,262	752	(2,899)	65,518
116,226	--	21,749	3,241	(279)	90,957
159,796	--	38,870	4,684	5,061	121,303
205,323	--	59,869	7,133	4,378	142,699
395,033	--	111,050	11,810	3,588	275,761
950,330	--	377,992	38,186	(26,109)	508,043
--	9,914,260	8,152,801	812,098	(88,207)	861,154
<u>\$ 2,323,140</u>	<u>\$ 9,914,260</u>	<u>\$ 8,785,383</u>	<u>\$ 883,402</u>	<u>\$ (104,661)</u>	<u>\$ 2,463,954</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

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

EXHIBIT J-2

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (Other) Misc.	7 Total
611X-6146	Payroll Costs	\$ --	\$ 100,652	\$ 216,824	\$ 1,342,481	\$ 31,909	\$ 41,269	\$ 1,733,135
6149	Fringe Benefits (Unused Leave for Separating Employees in Function 41 and Related 53)	--	--	--	--	--	--	--
6149	Fringe Benefits (Unused Leave for Separating Employees in all Functions except Function 41 and Related 53)	--	--	--	9,980	--	--	9,980
6211	Legal Services	--	--	146,237	--	--	--	146,237
6212	Audit Services	--	--	--	18,500	--	--	18,500
6213	Tax Appraisal and Collection	--	124,670	--	--	--	--	124,670
621X	Other Prof. Services	--	--	3,000	174,461	--	--	177,461
6220	Tuition and Transfer Payments	--	--	--	--	--	--	--
6230	Education Service Centers	--	--	20,147	2,000	--	--	22,147
6240	Contr. Maint. and Repair	--	--	--	--	4,952	--	4,952
6250	Utilities	--	--	--	--	822	--	822
6260	Rentals	--	6,255	6,162	35,275	--	--	47,692
6290	Miscellaneous Contr.	--	--	--	220	--	--	220
6310	Operational Supplies, Materials	--	--	--	--	--	--	--
6320	Textbooks and Reading	--	--	1,774	576	--	--	2,350
6330	Testing Materials	--	--	--	--	--	--	--
63XX	Other Supplies, Materials	1,209	12,133	6,616	145,248	--	--	165,206
6410	Travel, Subsistence, Stipends	18,610	--	6,312	11,702	--	--	36,624
6420	Ins. and Bonding Costs	--	--	--	66,263	--	--	66,263
6430	Election Costs	9,680	--	--	--	--	--	9,680
6490	Miscellaneous Operating	22,174	155	7,080	118,391	--	--	147,800
6500	Debt Service	--	--	--	--	--	--	--
6600	Capital Outlay	--	--	--	--	--	25,860	25,860

Total \$ 51,673 \$ 243,865 \$ 414,152 \$ 1,925,097 \$ 37,683 \$ 67,129 \$ 2,739,599

Total expenditures for General and Special Revenue Funds (9) \$ 86,144,659

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600) (10) \$ 2,189,370
 Total Debt & Lease (6500) (11) \$ 532,599
 Plant Maintenance (Function 51, 6100-6400) (12) \$ 10,445,652
 Food (Function 35, 6341 and 6499) (13) \$ 2,437,044
 Stipends (6413) (14) \$ --
 Column 4 (above) - Total Indirect Cost \$ 1,925,097

Subtotal 17,529,762

Net Allowed Direct Cost \$ 68,614,897

CUMULATIVE

Total Cost of Buildings Before Depreciation (1520) (15) \$ 108,645,005
 Historical Cost of Buildings 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) 11,829,465
 Historical Cost of Furniture & Equipment over 16 years old (19) --
 Amount of Federal Money in Furniture & Equipment (Net of #19) (20) \$ --

(8) Note A - \$148,366 in Function 53 expenditures are included in this report on administrative costs.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET (UNAUDITED)
GENERAL FUND
AS OF AUGUST 31, 2006

EXHIBIT J-3

Data Control Codes	Explanation	Amount
1	Total General Fund Fund Balance as of August 31, 2006 (Exhibit C-1 object 3000 for the General Fund only)	\$ 9,899,045
2	Total General Fund Reserved Fund Balance (from Exhibit C-1 - total of object 3400s for the General Fund only)	1,047,699
3	Total General Fund Designated Fund Balance (from Exhibit C-1 - total of object 3500s for the General Fund only)	1,798,589
4	Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues)	--
5	Estimate of one month's average cash disbursements during the regular school session (9/1/06 - 5/31/07)	6,400,000
6	Estimate of delayed payments from state sources (58XX) including August payment delays	1,649,474
7	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	--
8	Estimate of delayed payments from federal sources (59XX)	--
9	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	--
10	General Fund Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9)	10,895,762
11	Excess (Deficit) Undesignated Unreserved General Fund Fund Balance (Line 1 minus Line 10)	\$ (996,717)

If Item 11 is a Positive Number

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

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

DEBT SERVICE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2006

EXHIBIT J-4

Data Control Codes	1		2	3	Variance with Final Budget Positive (Negative)
	Budgeted Amounts				
	Original	Final	Actual		
REVENUES:					
5700 Local and Intermediate Sources	\$ 1,137,000	\$ 1,137,000	\$ 1,023,826	\$	(113,174)
5800 State Program Revenues	5,936,222	5,936,222	6,140,728		204,506
5020 Total Revenues	<u>7,073,222</u>	<u>7,073,222</u>	<u>7,164,554</u>		<u>91,332</u>
EXPENDITURES:					
Debt Service:					
0071 Principal on Long-Term Debt	3,520,000	3,520,000	3,520,000	--	--
0072 Interest on Long-Term Debt	3,793,987	3,793,987	3,796,555		(2,568)
0073 Bond Issuance Costs and Fees	6,000	6,000	113,369		(107,369)
Total Debt Service	<u>7,319,987</u>	<u>7,319,987</u>	<u>7,429,924</u>		<u>(109,937)</u>
6030 Total Expenditures	<u>7,319,987</u>	<u>7,319,987</u>	<u>7,429,924</u>		<u>(109,937)</u>
1100 Excess (Deficiency) of Revenues Over (Under)					
1100 Expenditures	(246,765)	(246,765)	(265,370)		(18,605)
1200 Net Change in Fund Balance	<u>(246,765)</u>	<u>(246,765)</u>	<u>(265,370)</u>		<u>(18,605)</u>
0100 Fund Balance - Beginning	2,059,175	2,059,175	2,059,175	--	--
3000 Fund Balance - Ending	<u>\$ 1,812,410</u>	<u>\$ 1,812,410</u>	<u>\$ 1,793,805</u>	\$	<u>(18,605)</u>

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**

To the Board of Trustees
San Benito Consolidated Independent School District

We have audited the basic financial statements of San Benito Consolidated Independent School District (the "District") as of and for the year ended August 31, 2006, and have issued our report thereon dated December 21, 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 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 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as items 06-1, 06-2 and 06-3.

We noted certain matters that we reported to management of the District in a separate letter dated December 21, 2006.

This report is intended solely for the information and use of the audit committee, management, the Board of Trustees, 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.



LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
December 21, 2006

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

To the Board of Trustees
San Benito Consolidated Independent School District

Compliance

We have audited the compliance of San Benito Consolidated 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 management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

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

Internal Control Over Compliance

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

Long Chilton, LLP

LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
December 21, 2006

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2006

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weaknesses? _____ yes X no
- Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? _____ yes X no
- Reportable condition(s) identified that are not considered to be material weakness(es)? _____ yes X no

Type of auditors' report issued on compliance for major programs:

Unqualified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?

_____ yes X no

Identification of major programs:

CFDA Number(s)

Name of Federal Program or Cluster

84.287

ESEA Title IV, Part A – English Language Acquisition and Language Enhancement
Special Education Cluster

84.027, 84.173

Reading First

84.357

ESEA Title I, Part C – Education of Migratory Children

84.011

ESEA Title II, Part A – Teacher and Principal Training and Recruitment

84.367

Dollar threshold used to distinguish between Type A and Type B programs:

\$597,048

Auditee qualified as low-risk auditee?

 X yes _____ no

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
YEAR ENDED AUGUST 31, 2006

Section II - Financial Statement Findings

<u>PROGRAM DESCRIPTION</u>	<u>DESCRIPTION</u>
Schedule Reference Number: (06-1)	Expenditures In Excess of Budget Appropriations
General	
Criteria:	State law requires budget amendments to be made prior to exceeding a major functional category.
Condition Found:	As indicated in the notes to the District's financial statements, we noted instances in which the District's budget had been exceeded on a functional level.
Questioned Costs/Basis:	Not applicable
Context:	We noted a negative variance in four functional expenditure categories.
Effect:	The District incurs expenditures that are not budgeted in advance by the Board of Trustees.
Recommendation:	Budget versus actual comparisons should be made on a monthly basis, and control over expenditures should include a review of available budget amounts prior to approval of purchase orders for the expenditure of funds.
Schedule Reference Number: (06-2)	Allocated State Program Revenues
General	
Criteria:	For programs financed under the Foundation School Program Act, the District must expend at least 85% of its allocation as mandated by the Act.
Condition Found:	The District failed to expend at least 85% of its allocation for Career and Technology, Compensatory Education and Bilingual Education (Program Codes 22, 24 and 25, respectively) programs during the 2005-2006 year.
Questioned Costs/Basis:	Career and Technology (Program Code 22) - \$205,628 Compensatory Education (Program Code 24) - \$956,743 Bilingual Education (Program Code 25) - \$66,133 Questioned costs represent the amount under 85% which the District failed to expend.
Context:	The questioned costs represent the total amount underspent for the program listed.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

YEAR ENDED AUGUST 31, 2006

Section II - Financial Statement Findings – Continued

PROGRAM DESCRIPTION

DESCRIPTION

Effect:

Failure by the District to utilize these funds for the purposes for which they are designated could result in downward adjustments to the District's entitlements in future years' program(s).

Recommendations:

The District should review amounts budgeted for these entitlements to ensure that appropriate consideration is given to the utilization of these funds for the purpose for which they are designated. The District should also review coding of expenditures to insure that all cost associated with the program are properly accounted for.

Schedule Reference Number: (06-3)

Undercollateralized Deposits

General

Criteria:

Governmental entities are required to maintain a depository contract with a financial institution, which includes terms addressing the collateralization of the governmental entity's deposits with the financial institution. Specifically, the financial institution must be willing and able to pledge securities to secure amounts on deposits, which exceed Federal Deposit Insurance Corporation (FDIC) coverage.

Condition Found:

On February 8, 2006, the District had total deposits of \$53,988,643 of which only \$52,323,044 were covered by securities and FDIC insurance. The excess was not collateralized.

Questioned Costs/Basis:

N/A

Context:

The District's deposits were not collateralized; therefore a default by the financial institution with no pledged securities would have jeopardized the District's cash position.

Recommendation:

We recommend the District regularly monitor all cash balances. The responsibility to maintain adequate collateralization is a joint responsibility between the District and the financial institution.

Section III – Federal Award Findings and Questioned Costs

None noted that were required to be reported.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR FINDINGS
YEAR ENDED AUGUST 31, 2006

PROGRAM DESCRIPTION

**STATUS OF PRIOR YEAR'S
FINDING/NONCOMPLIANCE**

NONE

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2006

PROGRAM DESCRIPTION

Schedule Reference Number: (06-1)

General

Corrective Action Plan:

CORRECTIVE ACTION PLAN

Expenditures in Excess of Budget Appropriations

Available budget amounts will continue to be compared to purchase orders approved close to year end to ensure that expenditures in excess of appropriations are not the result of expenditure accruals recorded at year end. The District will ensure that sufficient amounts are available to cover wage accruals.

Schedule Reference Number: (06-2)

General

Corrective Action Plan:

Allocated State Program Revenues

District personnel, campus principals, and other administrative staff will meet on a periodic basis to review expenditures by funds to monitor compliance with appropriate spending compliance.

Schedule Reference Number: (06-3)

General

Corrective Action Plan:

Undercollateralized Deposits

The District has implemented procedures to monitor cash balances and related collateral.

Contact Person:

Emma McCall
Business Manager

Implementation Time Frame:

Within the next fiscal year

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

EXHIBIT K-1
Page 1 of 2

	(1)	(2)	(2A)	(3)
Data Control Codes	Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
	U. S. DEPARTMENT OF EDUCATION			
	Passed Through the University of Texas - Pan American and The The University of Texas at Brownsville			
287	<i>Gear-Up Region One ESC</i>	84.334	P334A990127-01	\$ 133,174
287	<i>Gear-Up Region One ESC</i>	84.334	P334A990127-01	6,071
288	<i>Gear-Up Region One Project</i>	84.334	514292	50,510
				<u>189,755</u>
	Passed Through State Department of Education:			
211	<i>ESEA Title I Part A - Improving Basic Programs</i>	84.010A	0661010403191200	4,679,596
211	<i>ESEA Title I Part A - Improving Basic Programs</i>	84.010A	0761010403191200	300,014
280	<i>T-1 School Improvement</i>	84.010A	06610104031912001	135,220
280	<i>T-1 School Improvement</i>	84.010A	07610104031912001	18,000
	Total CFDA Number 84.010A			<u>5,132,830</u>
212	<i>ESEA Title I Part C - Education of Migratory Children</i>	84.011	06615001031912	541,958
212	<i>ESEA Title I Part C - Education of Migratory Children</i>	84.011	07615001031912	62,002
	Total CFDA Number 84.011			<u>603,960</u>
224	<i>IDEA-B Formula*</i>	84.027	066600010319126600	1,772,929
224	<i>IDEA-B Formula*</i>	84.027	0766000103191266	79,910
	Total CFDA Number 84.027			<u>1,852,839</u>
244	<i>Vocational Education - Basic Grant</i>	84.048	0642000603191200	190,569
244	<i>Vocational Education - Basic Grant</i>	84.048	0742000603191200	8,736
	Total CFDA Number 84.048			<u>199,305</u>
225	<i>IDEA-B Preschool*</i>	84.173	0666100103191266	18,317
264	<i>Title IV Community Service Grant</i>	84.173	095182	393
	Total CFDA Number 84.173			<u>18,710</u>
204	<i>ESEA Title IV Part A-Safe & Drug-Free Schools & Communities Act</i>	84.186A	06691001031912	85,147
204	<i>ESEA Title IV Part A-Safe & Drug-Free Schools & Communities Act</i>	84.186A	07691001031912	11,261
	Total CFDA Number 84.186A			<u>96,408</u>
265	<i>21st Century Community Learning Centers</i>	84.287	076950017110036	329,838
265	<i>21st Century Community Learning Centers</i>	84.287	066950017110046	2,501,164
	Total CFDA Number 84.287			<u>2,831,002</u>
269	<i>Title V, Part A - Innovative Programs</i>	84.298	06685001031912	35,730
262	<i>Title II Part D Enhancing Education Through Technology</i>	84.318	06630001031912	92,612
261	<i>Reading First</i>	84.357	056455017110059	89,591
261	<i>Reading First</i>	84.357	066455017110059	1,305,799
	Total CFDA Number 84.357			<u>1,395,390</u>
263	<i>Title III Part A English Language Acquisition and Language Enhance</i>	84.365A	06671001031912	202,810
281	<i>Math Professional Development</i>	84.366B	056944087110050	79,897
255	<i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367A	06694501031912	671,106
255	<i>ESEA Title II Part A - Teacher & Principal Training & Recruiting</i>	84.367A	07694501031912	36,838
	Total CFDA Number 84.367A			<u>707,944</u>
	Total Passed Through State Department of Education			<u>13,249,437</u>
	Total U.S. Department of Education			<u>13,439,192</u>
	U.S. DEPARTMENT OF DEFENSE			
	Passed Through State Department of Education:			
	ROTC	12.113		46,930
	Total U.S. Department of Defense			<u>46,930</u>

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

EXHIBIT K-1
Page 2 of 2

	(1)	(2)	(2A)	(3)
Data Control Codes	Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
	U.S. DEPARTMENT OF AGRICULTURE			
	Passed Through State Department of Education:			
240	School Breakfast Program*	10.553		1,534,533
240	National School Lunch Program*	10.555		3,587,081
495	Commodity Supplemental Food Program*	10.550		235,631
	Total Passed Through State Department of Education			5,357,245
	Total U.S. Department of Agriculture			5,357,245
	TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 18,843,367
	Federal Awards Not Required to be included:			
	School Health and Related Services (SHARS)			645,878
	Medicaid			124,486
	Payment in Lieu of Taxes			485
	TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 19,614,216

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of San Benito Consolidated Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the general purpose financial statements.

NOTE B – PROGRAM REPORTING

SHARS, Medicaid, ROTC and \$171,929 of indirect cost are accounted for in the general fund. The National School Lunch Program, School Breakfast Program Commodity Supplemental Food Program, and Summer Feeding Program are accounted for in the Food Service Special Revenue Funds. Expenditures are not specifically attributable to these revenues and are shown on this schedule in an amount equal to revenue for balancing purposes only.

SAN BENITO CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2006

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	\$ 251,297

MEMORANDUM OF ADVISORY COMMENTS

**SAN BENITO CONSOLIDATED
INDEPENDENT SCHOOL DISTRICT**

August 31, 2006

Board of Trustees and Management
San Benito Consolidated Independent School District

In planning and performing our audit of the financial statements of the San Benito Consolidated Independent School District for the year ended August 31, 2006, we considered the District's internal control structure to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of certain matters that are an opportunity for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding this matter. We previously reported on the District's internal control structure in our report dated December 21, 2006. This letter does not affect our report, dated December 21, 2006, on the financial statements of the San Benito Consolidated Independent School District.

We will review the status of these comments during our next audit engagement. We have already discussed these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations.


LONG CHILTON, LLP
Certified Public Accountants

Harlingen, Texas
December 21, 2006

COMMENTS AND OBSERVATIONS

Bank Reconciliation Review and Approval

The current format of the bank reconciliation makes reconciliation of the general ledger balance and the bank balance difficult. We also noted that no documented formal review and approval process was performed by management. This provides an ineffective system of cash control, because it permits the possibility of fraudulent activities due to the lack of adequate segregation of duties and review. We recommend that the District implement a policy where the Business Manager formally reviews and approves bank reconciliations on a monthly basis. We further recommend that the District work with the software company to enhance the current EdPro generated bank reconciliation so that month end bank balances can be easily reconciled to the general ledger. These procedures would ensure that the bank statement is agreed to the general ledger on a monthly basis and reduce the risk of errors or defalcations and improve the system of checks and balances necessary for strong cash control.

Inventory

Currently, San Benito Consolidated Independent School District does not have a consistent system of taking periodic inventory counts for maintenance and transportation supplies. The lack of a perpetual inventory system and the reconciliation of the inventory on a monthly or quarterly basis could allow for possible abuse. Physical counts of inventory should be done at least quarterly. The results should be reviewed and reconciled to the perpetual system by the Accounting Manager. The perpetual inventory listing should be reconciled to the general ledger with any large discrepancies investigated and explained. Any adjustments, along with entries for consumption should be made and a procedure should be implemented to allow for these adjustments to occur on a monthly basis.

We recommend that the District develop and establish a formal written policy outlining a standard procedure encompassing physical inventory counts, maintenance of a perpetual inventory system and training employees in taking physical inventory counts and maintaining perpetual inventory systems. Establishing such a policy will enable the District to take a more accurate physical inventory count reducing the number of differences during the physical count and further strengthen internal controls. This policy will also serve as a tool for the District in monitoring and controlling inventory. Finally, this policy will help identify obsolete or slow moving inventory items.

Internal Service Fund: Capitalization of Fixed Assets

Internal service funds utilize the full accrual basis of account. We noted that the transportation fund, an internal service fund, had capital outlay during the current period but no fixed assets are recorded on the balance sheet. All fixed assets are recorded in the general fixed asset account group. We recommend that the District assess their accounting policy with respect to internal service fund fixed assets.

Year End Closing Procedures

In the past year, the District changed accounting software from UNIX to EdPro. This endeavor was a challenge and we applaud the Business Office personnel for working through this transition. Understandably, this transition delayed the timing and progression of the year end closing procedures. Now, with the conversion to EdPro complete we can look forward in preparation for the following year. We recommend that the Business Manager establish a target date to complete the year end closing, possibly sixty days subsequent to year end. We suggest the District develop a formal year-end closing schedule that indicates specific personnel responsibilities and corresponding time requirements. Strict adherence to this schedule should be required because this will allow for the year end work and audit preparation to be a much less time consuming and arduous process.

Accounting for Unused Advances

While performing audit procedures on the 21st Century program we noted a weakness in the District's control over cash advances for trips involving students. In one instance out of a sample size of twenty three we noted that the business office distributed cash to the after school program director. The program director distributed funds to students and chaperones for meal allowances, but not all of the funds were used. A complete accounting for the unused funds was not provided. We recommend that better controls be put into place regarding documenting the distribution of these funds and the return of unused funds.

We believe that the implementation of these recommendations will provide the District with a stronger system of internal accounting control while also making its operations more efficient. We will be happy to discuss the details of these recommendations with you and assist in any way possible with their implementation.