

SHALLOWATER INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2005

**SHALLOWATER INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2005**

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CERTIFICATE OF BOARD

Shallowater Independent School District
Name of School District

Lubbock
County

152-909
Co. – Dist. Number

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

Signature of Board Secretary

Signature of Board President

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

FINANCIAL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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1623 10TH STREET

LUBBOCK, TEXAS 79401-2685

Independent Auditors' Report

UNQUALIFIED OPINION ON THE BASIC FINANCIAL STATEMENTS

Board of School Trustees
Shallowater Independent School District
Shallowater, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Shallowater Independent School District (the District), as of and for the year ended August 31, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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 Shallowater Independent School District, as of August 31, 2005, and the respective changes in financial position and the 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 September 22, 2005, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Management's discussion and analysis and the budgetary comparison information on pages 3-8 and 33, respectively, 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 comprises the Shallowater Independent School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The other supplementary information, including the Texas Education Agency requested schedules, are likewise presented for purposes of additional analysis and not a required part of the basic financial statements. Such information 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. The Exhibit J-3 – Fund Balance and Cash Flow Calculation Worksheet, which is marked "Unaudited", has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on Exhibit J-3.

Balinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

September 22, 2005

SHALLOWATER INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Our discussion and analysis of the Shallowater Independent School District's financial performance provides an overview of the District's financial performance for the year ended August 31, 2005. It should be read in conjunction with the District's Basic Financial Statements and Independent Auditors' Report.

The Management's Discussion and Analysis (MD&A) is an element of the new financial reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, issued June 1999. The Texas Education Agency mandated all school districts in Texas adopt the new financial reporting model effective September 1, 2001.

FINANCIAL HIGHLIGHTS

- The net assets of the District decreased by \$112,884. The District's statement of activities showed total revenues were \$12,716,626, and expenses totaled \$12,829,510.
- The District ended the year, August 31, 2005, with total net assets of \$7,335,274, including unrestricted net assets of \$2,364,917. The balance of cash and investments at August 31, 2005, was \$9,383,786.
- During the year, the District issued bonds in the amount of \$7,310,000, made principal payments of \$450,000 and accreted interest on those bonds totaling \$47,519. Bonds Payable and Interest Payable on those bonds at August 31, 2005 total \$15,454,089. This compares to a balance of \$8,546,570 in 2004.
- During the year, the District approved new capital leases for a copier and bus for a total of \$133,475 and made principal payments totaling \$159,043. Total Capital Leases Payable at August 31, 2005 was \$231,462. This compares to a balance of \$257,031 in 2004.
- Total government-wide expenses were \$12,829,510 for the year ended August 31, 2005; this compares with expenses of \$10,796,034 for the year ended August 31, 2004.
- The District's total revenues on the Statement of Activities increased from \$10,824,076 in 2003-04 to \$12,716,628 in 2004-05.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the District as a whole and then proceed to provide an increasingly detailed look at specific financial activities.

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities. These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how the services of the District were sold to departments within the District. The fiduciary statements provide financial information about activities for which the District acts

solely as a trustee.

The notes to the financial statements provide narrative explanations and additional data needed for full disclosure in the government-wide statements and the fund financial statements.

The combining statements for nonmajor funds contain information about the District's individual nonmajor funds. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

Government-Wide Financial Statements

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

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the district and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net assets and changes in them. The District's net assets (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Assets and the Statement of Activities, the District is reporting its governmental activities. The District currently has no business-type activities or component units as defined in the GASB Statement no. 34.

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received from the U.S. Department of Education through TEA. The District's administration establishes many other funds to help it control and manage money for particular purposes. The District's three fund types – governmental, proprietary, and fiduciary – use different accounting approaches.

· Governmental funds – Most of the District's basic services are included in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial

assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules following the fund financial statements.

- Proprietary funds – The District reports the activities for which it charges users (other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Assets and the Statement of Activities. The internal service funds (the District’s only category of proprietary funds) report activities that provide worker’s compensation insurance coverage to the District's other programs and activities.
- Fiduciary funds – The District is the trustee, or fiduciary, for money raised by student activities. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the government-wide financial statements because the District cannot use these assets to finance its operations.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the District's governmental and business-type activities.

Table I
Shallowater Independent School District
Net Assets
August 31, 2005 and 2004

	August 31,	
	2005	2004
Cash and Temporary Investments	\$ 9,383,786	\$ 2,405,942
Receivables and Deferred Expenditures	1,272,263	874,785
Unamortized Bond Issue Costs & Premium	16,888	52,046
Capital Assets, Net of Accumulated Depreciation	12,990,809	13,403,583
Total Assets	\$ 23,663,746	\$ 16,736,356
Current Liabilities and Deferred Revenues	\$ 642,921	\$ 484,597
Long-Term Liabilities	15,685,551	8,803,598
Total Liabilities	\$ 16,328,472	\$ 9,288,195
Net Assets		
Invested in Capital Assets		
net of related debt	\$ 4,632,146	\$ 4,599,985
Restricted for Debt Service	303,640	229,609
Restricted for Capital Projects	34,571	
Unrestricted Net Assets	2,364,917	2,618,567
Total Net Assets	\$ 7,335,274	\$ 7,448,161

Changes in Net Assets

The District’s net assets decreased during the year ended August 31, 2005, by \$112,884 (see Table II). This decrease is attributable to several factors. The District’s fund financial statements reflected revenues exceeding expenditures by a total of \$7,240,567. This net income consisted of (\$166,828) in the general fund, \$7,344,571 in the capital projects and \$62,824 in other funds. However, the large increase in the capital projects fund was for the bond issue received during the year. On the government-wide financials, this is shown as debt, not an increase in net assets. Other adjustments are also made as part of the conversion to government-wide financials. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established

by debt covenants, enabling legislation, or other legal requirements – was \$2,364,917 at August 31, 2005. This compares with the District's unrestricted net assets at August 31, 2004, of \$2,618,566, a decrease of \$264,553.

The District's total revenues increased from \$10,824,076 in fiscal year 2004 to \$12,716,626, an increase of \$1,881,646. This increase was attributable to an increase in property taxes and federal grants. The total expenses of the District increased by \$2,050,475 from \$10,779,035 to \$12,829,510. This increase is attributable to expenditure increases across the board with large increases in Instruction.

Other factors impacting the District's financial position include the following:

- The District appraised valuation of taxable property increased from \$105,507,375 to \$118,964,253, an increase of \$13,456,878 or 12.75%. This increase is attributable largely to property reappraisals. The total school property taxes assessed for school year 2005 were \$2,046,185. This is an increase of \$231,114 from the \$1,815,071 assessed in 2004.
- Total tax collections for 2005 were \$1,998,895 (97.7% of the current year levy). The tax collections for 2004 were \$1,780,970 (98.1% of that year's levy).
- The District's average daily attendance (ADA) is the basis for most of the State funding received. The ADA went from 1223 in 2004 to 1247 in 2005. This resulted in an increase in base state revenues of \$78,017, from \$6,708,220 in 2004 to \$6,786,237 in 2005.

Fund Balances

The District's total Governmental Funds fund balance was \$9,804,698. This fund balance is reported in the various Governmental funds as follows:

General Fund \$2,081,384. This balance is available for current spending; however, it has been the practice of the District to try and maintain a fund balance that is at least several months operating expenses. The balance in the General Fund in 2004 was \$2,248,212.

Capital Projects Funds \$7,344,571. This balance was reserved for capital construction. During the year the District issued bonds for these projects. The fund balance attributable to Capital Projects in 2004 was \$0.

Debt Service Fund \$303,640. This balance is reserved for extinguishing of long-term debt. The fund balance reserved for Debt Service in 2004 was \$229,609.

Special Revenue Fund \$75,103. The District serves as fiscal agent for the H.O.N.D.A. Special Education Cooperative. This entire balance is restricted for use in the Special Education Cooperative. The fund balance reserved in 2004 was \$86,409.

Table II
Shallowater Independent School District
Changes in Net Assets
For the Years Ended August 31, 2005 and 2004

	2005	2004
Revenues:		
Program Revenues:		
Charges For Services	\$ 329,585	\$ 299,645
Operating Grants and Contributions	3,651,697	2,103,137
General Revenues:		
Maintenance and Operations Taxes	1,786,890	1,610,967
Debt Service Taxes	260,756	239,997
State Aid Not Restricted	6,418,367	6,345,467
Investment Earnings	133,223	72,846
Miscellaneous	136,108	152,014
Total Revenue	\$ 12,716,626	\$ 10,824,073
Expenses:		
Instruction and Instructional-Related Services	\$ 6,368,709	\$ 5,715,644
Instructional and School Leadership	143,133	164,627
Curriculum and Instructional Staff Development	61,846	58,599
Instructional Leadership	269,840	113,101
School Leadership	533,719	519,543
Guidance, Counseling, and Evaluation Services	676,299	306,656
Health Services	116,049	114,344
Student Transportation	515,823	239,714
Food Services	498,496	540,181
Co-curricular / Extracurricular Activities	525,656	503,067
General Administration	567,452	439,096
Plant Maintenance and Data Processing	1,272,151	1,185,279
Security and Monitoring Services	53,734	46,304
Data Processing Services	214,323	197,308
Community Services	625	
Debt Service	474,253	470,908
Bond Issuance Costs and Fees	1,928	1,928
Payments to Fiscal Agent/Member Districts	527,353	178,184
Payments to Juvenile Alternative Education Program	8,121	1,551
	\$ 12,829,510	\$ 10,796,034
Increase in Net Assets	\$ (112,884)	\$ 28,039
Net Assets - Beginning of Year	7,448,158	7,420,119
Net Assets - End of Year	\$ 7,335,274	\$ 7,448,158

Budgetary Highlights

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments were necessary to reflect the revised estimates of revenues and expenses. The largest amendment was increases in facilities acquisition and construction expenditures with an offset to other financing sources-capital leases for the tractor and fitness equipment.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2005, the District had \$12,990,809 of capital assets, net of accumulated depreciation. Financial statement footnote No. 6 discloses the capital asset activity of the District for the year ended August 31, 2005.

Debt

During the school year ended August 31, 2005, the District issued bonds in the amount of \$7,310,000 for building construction. These bonds were issued at a premium of \$123,230 and had associated bond issue costs of (\$90,000). These will be amortized over the life of the bond. The District also entered into new capital leases totaling \$133,475 for a copier and a bus. At August 31, 2005, the District's long-term debt included \$15,454,089 in Bonds Payable and \$231,462 in Capital Leases Payable. The funding for the payment of these leases and bonds come from operating revenues. Interest and Sinking property taxes will assist in making bond payments. Financial statement footnote No. 8 discloses the debt activity of the District for the year ended August 31, 2005.

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District's elected and appointed officials considered factors such as the economy and enrollment trends, when setting the fiscal year 2006 budget and tax rates. Amounts available for appropriation in the General Fund budget for 2006 are \$9.1 million. Assessed property values for 2006 are \$135,643,061, an increase of 11.3% over the 2005 values of \$121,876,284. A Bond Election was held in June 2005 to authorize the issue of bonds in the amount of \$7,325,000. The voters of the District approved the bond issue with a vote of 183-FOR and 60-AGAINST. Therefore, the District's tax rate for 2006 will increase by .03 per \$100 valuation above the 2005 tax rate for a total of \$1.80 per \$100 valuation in order to finance the additional bond obligation. Tax revenues are expected to increase about \$311,000 due to increased property value assessments and tax rate increase. Preliminary attendance figures indicate an increase of approximately 30 students for 2006 ADA above 2005.

Budgeted general fund expenditures are expected to increase about \$190,000 in 2006 from the \$9.2 million budgeted expenditures in 2005. This increase is largely due to additional personnel as described below and a State Salary Schedule increase. The school district also plans to make updates in the transportation fleet with the purchase of 2 buses and 1 van in 2006. The District realized its largest enrollment increases at the elementary level. This growth precipitated the addition of a Kindergarten Teacher, a 1st Grade Teacher and increased the half-time Pre-Kindergarten Teacher added in 2005 to a full-time position at Elementary and added a 4th Grade Teacher at the Intermediate School. The High School added a Content Mastery Teacher and a Reading Specialist was added as a shared position with High School and Middle School. The district began its own Automotive Technology program in 2005-06 instead of busing students to Frenship ISD for the program and continues to offer all previous programs to students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Shallowater Independent School District, 1100 Avenue K, Shallowater, Texas 79363.

BASIC FINANCIAL STATEMENTS

SHALLOWATER INDEPENDENT SCHOOL DISTRICT

Exhibit A-1

STATEMENT OF NET ASSETS
AUGUST 31, 2005

<u>Data Control Codes</u>		Primary Government	<u>Governmental Activities</u>
	ASSETS AND OTHER DEBITS:		
1110	Cash and Temporary Investments	\$ 9,383,786	
1220	Property Taxes - Delinquent	254,850	
1230	Allowance for Uncollectible Taxes	(28,092)	
1240	Due from Other Governments	1,009,702	
1267	Due from Fiduciary Funds	107	
1290	Other Receivables	30,352	
1410	Deferred Expenditures	5,344	
1420	Unamortized Bond Issue Costs	140,118	
1430	Unamortized Bond Premium	(123,230)	
	Capital Assets:		
1510	Land	246,224	
1520	Buildings, Net	11,843,128	
1530	Vehicles and Equipment, Net	516,672	
1550	Leased Equipment, Net	384,785	
1000	Total Assets	\$ 23,663,746	
	LIABILITIES:		
2110	Accounts Payable	\$ 199,152	
2160	Accrued Wages Payable	433,459	
2200	Accrued Expenditures/Expenses	10,310	
2501	Due Within One Year	340,457	
2502	Due in More Than One Year	15,345,094	
2000	Total Liabilities	\$ 16,328,472	
	NET ASSETS:		
3200	Invested in Capital Assets, Net of Related Debt	\$ 4,632,146	
3850	Restricted for Debt Service	303,640	
3860	Restricted for Capital Projects	34,571	
3900	Unrestricted Net Assets	2,364,917	
3000	Total Net Assets	\$ 7,335,274	

The accompanying notes are an integral part of the financial statements.

SHALLOWATER INDEPENDENT SCHOOL DISTRICT

Exhibit B-1

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2005

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Assets	
		3	4	6	
	Expenses	Charges for Services	Operating Grants and Contributions	Total Governmental Funds	
11	Instruction	\$ 6,368,709	\$	\$ 1,535,322	\$ (4,833,387)
12	Instructional Resources and Media Services	143,133		8,650	(134,483)
13	Curriculum and Staff Development	61,846		32,956	(28,890)
21	Instructional Leadership	269,840		188,105	(81,735)
23	School Leadership	533,719		23,702	(510,017)
31	Guidance, Counseling, and Evaluation Services	676,299		397,288	(279,011)
33	Health Services	116,049		7,281	(108,768)
34	Student Transportation	515,823	64,638	96,727	(354,458)
35	Food Services	498,496	205,576	223,078	(69,842)
36	Extracurricular Activities	525,656	39,101	11,903	(474,652)
41	General Administration	567,452		37,667	(529,785)
51	Plant Maintenance and Operations	1,272,151	18,645	35,991	(1,217,515)
52	Security and Monitoring Services	53,734		5,347	(48,387)
53	Data Processing Services	214,323	1,625	16,435	(196,263)
61	Community Services	625		625	0
72	Debt Service - Interest	474,253		627,770	153,517
73	Bond Issuance Costs and Fees	1,928			(1,928)
93	Payments to Fiscal Agent	527,353		402,850	(124,503)
95	Juvenile Alternative Education Program	8,121			(8,121)
TP	Total Primary Government	\$ <u>12,829,510</u>	\$ <u>329,585</u>	\$ <u>3,651,697</u>	\$ <u>(8,848,228)</u>

Data Control Codes

General Revenues:

MT	Property Taxes, Levied for General Purposes	\$ 1,786,890
DT	Property Taxes, Levied for Debt Service	260,756
SF	State Aid - Formula Grants	6,418,367
IE	Investment Earnings	133,223
MI	Miscellaneous Local and Intermediate Revenue	<u>136,108</u>
TR	Total General Revenues, Special Items, and Transfers	\$ <u>8,735,344</u>
CN	Change in Net Assets	\$ (112,884)
NB	Net Assets - Beginning	<u>7,448,158</u>
NE	Net Assets - Ending	\$ <u>7,335,274</u>

The accompanying notes are an integral part of the financial statements.

SHALLOWATER INDEPENDENT SCHOOL DISTRICT

Exhibit C-1

BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2005

Data Control Codes	Major Funds					
	10 General Fund	20 Reading First	60 Capital Projects Fund	Nonmajor Governmental Funds	98 Total Governmental Funds	
ASSETS AND OTHER DEBITS:						
1110	Cash and Temporary Investments	\$ 1,560,548	\$ 129	\$ 7,346,316	\$ 466,793	\$ 9,373,786
1220	Property Taxes - Delinquent	209,801			45,049	254,850
1230	Allowance for Uncollectible Taxes	(15,259)			(12,833)	(28,092)
1240	Due from Other Governments	716,837	157,674		135,191	1,009,702
1260	Due from Other Funds	244,619				244,619
1290	Other Receivables	30,352				30,352
1410	Deferred Expenditures	5,344				5,344
1000	Total Assets	<u>\$ 2,752,242</u>	<u>\$ 157,803</u>	<u>\$ 7,346,316</u>	<u>\$ 634,200</u>	<u>\$ 10,890,561</u>
LIABILITIES:						
2110	Accounts Payable	\$ 36,207	\$ 129	\$ 1,745	\$ 55,606	\$ 93,687
2160	Accrued Wages Payable	356,465	8,910		68,084	433,459
2170	Due to Other Funds	77,137	147,974		96,538	321,649
2200	Accrued Expenditures/Expenses	6,507	790		3,013	10,310
2300	Deferred Revenue	194,542			32,216	226,758
2000	Total Liabilities	<u>\$ 670,858</u>	<u>\$ 157,803</u>	<u>\$ 1,745</u>	<u>\$ 255,457</u>	<u>\$ 1,085,863</u>
FUND BALANCES:						
Reserved for:						
3420	Retirement of Long-Term Debt	\$	\$	\$	\$ 303,640	\$ 303,640
3490	Capital Projects			7,344,571		7,344,571
3490	Other Purposes				75,103	75,103
Designated for:						
3510	Construction	1,000,000				1,000,000
3530	Capital Expenditures for Equipment	200,000				200,000
3600	Unreserved and Undesignated	881,384				881,384
3000	Total Fund Balances	<u>\$ 2,081,384</u>	<u>\$ 0</u>	<u>\$ 7,344,571</u>	<u>\$ 378,743</u>	<u>\$ 9,804,698</u>
4000	Total Liabilities and Fund Balances	<u>\$ 2,752,242</u>	<u>\$ 157,803</u>	<u>\$ 7,346,316</u>	<u>\$ 634,200</u>	<u>\$ 10,890,561</u>

The accompanying notes are an integral part of the financial statements.

SHALLOWATER INDEPENDENT SCHOOL DISTRICT

Exhibit C-2

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT
OF NET ASSETS
AUGUST 31, 2005

Total Fund Balances - Governmental Funds (Exhibit C-1)	\$ 9,804,698
The District uses internal service funds to charge the costs of certain activities, such as workers compensation, to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets. The net effect of this consolidation is to (decrease) net assets.	(18,331)
Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$21,252,669, and the accumulated depreciation was (\$7,849,086). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in these funds. The long-term debt at the beginning of the year was (\$8,751,554) excluding issuance cost of \$52,046. The effect of including the beginning balances for capital assets net of depreciation and long-term debt in the governmental activities is to increase net assets.	4,652,029
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statement, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2005 capital outlays of \$602,335 and debt principal payments of \$609,043 is to increase net assets.	1,211,378
Bond Issuances and capital leases are recorded as other financing resources in the fund financial statements, but they should be shown as an increase to the bonds payable in the government-wide financial statements. The net effect of including the 2005 bond issuance of (\$7,310,000) net of issuance cost of \$86,144, including premium of (\$123,230) and capital lease acquisitions of (\$133,475) is to decrease net assets.	(7,480,561)
Current year accretion on capital appreciation bonds	(47,519)
The 2005 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to (decrease) net assets.	(1,015,109)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue of \$226,758 as revenue, eliminating interfund transactions, and recognizing the amortization of bond issuance costs of \$1,931. The net effect of these reclassifications and recognitions is to increase net assets.	<u>228,689</u>
Total Net Assets of Governmental Activities (Exhibit A-1)	<u>\$ 7,335,274</u>

The accompanying notes are an integral part of the financial statements.

**SHALLOWATER INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Shallowater Independent School District's (District) basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement and Auditing Standards No. 69* of the American Institute of Certified Public Accountants; as applied to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide (FAR). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

A. REPORTING ENTITY

The Board of School Trustees (Board), a seven member group, has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of Shallowater Independent School District. The Board of Trustees is elected by the public. The Board has the exclusive power and duty to govern and oversee the management of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (Agency) or to the State Board of Education are reserved for the Board, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District is not included in any other governmental "reporting entity" as defined in governmental accounting and financial reporting standards. There are no component units included within the reporting entity.

The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding entities.

B. BASIS OF ACCOUNTING AND PRESENTATION

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities display information about the government-wide entity as a whole. These statements report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental Activities, which normally are supported by taxes, state foundation funds, grants, and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support (i.e., internal service funds are considered governmental activities and not business-type activities). The District currently has no business-type activities.

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or statement of net assets. Bond issue costs and premiums are deferred and amortized over the life of the bonds. Interest payable on capital appreciation bonds are recognized as an increase in long-term debt and an increase in interest expense as accreted.

**SHALLOWATER INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

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

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

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Indirect expenses of other functions are not allocated to those functions but are reported separately in the Statement of Activities. Depreciation expense is specifically identified by function and is included in the direct expense to each function allocated. Interest on general long-term debt is considered an indirect expense and is reported separately on the Statement of Activities.

Interfund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due froms on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Assets and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses, and Changes in Fund Net Assets.

FUND FINANCIAL STATEMENTS

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. Major governmental funds are reported as separate columns in the fund financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues from local sources consist primarily of property taxes. No amounts have been recorded for property tax revenues collected after August 31, 2005. State revenues are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned since they are both measurable and available.

**SHALLOWATER INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures and claims and judgments are recorded only when payment is due.

In the fund financial statements, governmental fund types recognize bond issue costs in the current period. The face amount of the debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The proprietary fund and the fiduciary fund financial statements were reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The District applies all GASB pronouncements, as well as the Financing Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements.

Propriety funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a propriety fund's principal ongoing operations, they usually come from exchange or exchange-like transactions. All other revenues are nonoperating.

The District reports the following major governmental funds:

General Fund – This fund is established to account for resources used for general operations. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. This is a budgeted fund and undesignated fund balances are considered resources available for current operations.

Capital Projects Fund – This governmental fund is established to account for proceeds, on a modified accrual basis, from the sale of bonds and other resources to be used for Board authorized acquisition, construction, or renovation, as well as, furnishing and equipping of major capital facilities. Upon completion of a project, any unused bond proceeds are transferred to the debt service fund and are used to retire related bond principal.

Special Revenue Fund – Reading First is reported as a major fund and is accounted for as described below.

Additionally, the government reports the following governmental fund types:

GOVERNMENTAL FUND TYPES

Special Revenue Funds – These funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal financial assistance generally is accounted for in a special revenue fund. Except for the food service fund, any unused balances are returned to the grantor at the close of specified project periods. The food service fund is the only required budgeted special revenue fund and historically operates at a deficit

**SHALLOWATER INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

that is funded by an operating transfer from the general fund. For all other funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.

Debt Service Fund – This fund is used to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which tax has been dedicated. This is a budgeted fund and any unused sinking fund balances will be transferred to the general fund after all of the related debt obligations have been met.

PROPRIETARY FUND TYPES

Internal Service Funds – Internal service funds are used to account for revenues and expenses related to services provided to parties inside the District, specifically for the operation of the District's partially self-funded insurance plan for workers' compensation on a cost-reimbursement basis.

FIDUCIARY FUND TYPES

Agency Funds – These custodial funds are used to account for activities of student groups and other organizational activities requiring clearing accounts. Financial resources for the agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. Student activity organizations exist with the explicit approval of, and are subject to revocation by, the District's Board of Trustees. If any unused resources are declared surplus by the student groups, they are transferred to the general fund with a recommendation to the Board for an appropriate utilization through a budgeted program.

C. BASIS OF ACCOUNTING APPLICABLE TO ALL FINANCIAL STATEMENTS

Capital assets, which include buildings and improvements, furniture and equipment, vehicles, and work in progress are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' useful lives are not capitalized.

Revenues from state and federal grants are considered to be earned to the extent of expenditures made under the provisions of the grant. Funds received but unexpended are reflected as deferred revenues, and funds expended but not yet received are shown as receivables. If balances have not been expended by the end of the project period, grantors generally require the District to refund all or part of the unused amount.

Supplies and materials are debited as expenditures when purchased.

It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District.

**SHALLOWATER INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Since Internal Service Funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the District as a whole.

When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

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

D. BUDGETARY DATA

The official budget was prepared on the modified accrual basis of accounting, which is consistent with accounting principles generally accepted in the United States of America, for the general fund, debt service fund, and the food service special revenue fund. The remaining special revenue funds adopt project-length budgets which do not correspond to the District's fiscal year. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least 10 days public notice of the meeting must be given.
- c. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.

The budget is prepared and controlled at the function level within each fund and is amended at this level as needed. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. Such amendments are made before the fact, and they are reflected in the official minutes of the Board. During the year, several amendments were necessary.

E. ENCUMBRANCE ACCOUNTING

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at August 31, 2005.

**SHALLOWATER INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

F. FUND EQUITY

Unreserved, undesignated fund equity for governmental funds in the fund financial statements indicates available amounts for the budgeting of future operations. The unreserved designated fund equity for governmental funds indicates unreserved funds that have been earmarked by Board resolution for specific purposes and are therefore not available for general expenditures to be appropriated in the following period unless amended by future Board action. Reserved fund balance is that portion of fund equity which is not available for appropriation or which has been legally separated for specific purposes.

G. NET ASSETS ON THE STATEMENT OF NET ASSETS

Net assets on the statement of net assets include the following:

Investment in Capital Assets, Net of Related Debt – this component of net assets represents the difference between capital assets less both the accumulated depreciation and the outstanding balance of debt, excluding any unspent bond proceeds, that is directly attributable to the acquisition, construction, or improvement of those assets.

Restricted for Debt Service – this component of net assets represents the difference between assets and liabilities of the Debt Service Fund that consists of assets with constraints placed on their use by creditors.

Restricted for Capital Projects – this component of net assets represents the difference between assets and liabilities of the Capital Projects Fund that consist mainly of bond proceeds to be spent on capital improvements.

Unrestricted – the difference between assets and liabilities that is not reported in Net Assets Invested in Capital Assets, Net of Related Debt, Net Assets Restricted for Capital Projects, and Net Assets Restricted for Debt Service.

H. CASH AND CASH EQUIVALENTS – PROPRIETARY FUNDS

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

I. MANAGEMENT'S USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

SHALLOWATER INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

2. DEPOSITS AND INVESTMENTS

Legal and Contractual Provisions Governing Deposits and Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The district is in substantial compliance with the requirements of the Act and with local policies.

Policies Governing Deposits and Investments

In compliance with the **Public Funds Investment Act**, the District has adopted a deposit and investment policy. That policy does not address the following risks:

- a. Custodial Credit Risk – Deposits and Investments: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits and investments in certificates of deposits may not be returned to it. The District's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state or local governments by pledging securities in excess of the highest cash balance of the government. The District is not exposed to custodial credit risk for its deposits and investments in certificates of deposit are all covered by depository insurance and pledged securities held by a third party in the District's name.
- b. Concentration of Credit Risk – The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk. At August 31, 2005, all of the Districts investments are in certificates of deposit with its depository bank, and are completely covered by pledged securities as described in the preceding paragraph.
- c. Credit Risk – The risk that an issuer of other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to given an indication of credit risk. At August 31, 2005, the District was not significantly exposed to credit risk.

SHALLOWATER INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS

- d. Interest Rate Risk – Not applicable
- e. Foreign Currency Risk – Not applicable

The carrying amount of the District’s cash and temporary investments at August 31, 2005, approximates fair value and consisted of the following shown below:

	General Fund	Other Funds	Capital Projects Fund	Internal Service Fund	Fiduciary Fund	Total
Cash in Bank	\$ 403,544	\$ 466,922	\$	\$ 10,000	\$ 55,052	\$ 935,518
Investment Pool			7,346,316			7,346,316
Certificates of Deposit	<u>1,157,004</u>					<u>1,157,004</u>
	<u>\$ 1,560,548</u>	<u>\$ 466,922</u>	<u>\$ 7,346,316</u>	<u>\$ 10,000</u>	<u>\$ 55,052</u>	<u>\$ 9,438,838</u>

3. PROPERTY TAXES

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

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. All property taxes remaining uncollected after ten years are provided for in the allowance for uncollectible 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.

4. RECEIVABLE FROM OTHER GOVERNMENTS

The amount due from other governments consisted of \$1,009,702 due primarily from the State for foundation and various special revenue fund programs.

**SHALLOWATER INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

5. INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at August 31, 2005, consisted of the following individual fund receivables and payables:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund		
Special Revenue Funds	\$ 240,361	\$
Debt Service Fund	4,151	
Internal Service Funds		77,137
Agency Funds	107	
	<u>\$ 244,619</u>	<u>\$ 77,137</u>
Internal Service Funds		
General Fund	<u>\$ 77,137</u>	<u>\$ 0</u>
Agency Funds		
General Fund	<u>\$ 0</u>	<u>\$ 107</u>
Special Revenue Funds		
General Fund	<u>\$ 0</u>	<u>\$ 240,361</u>
Debt Service Fund		
General Fund	<u>\$ 0</u>	<u>\$ 4,151</u>
	<u><u>\$ 321,756</u></u>	<u><u>\$ 321,756</u></u>

6. CAPITAL ASSETS

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

	<u>9/1/2004</u>		<u>Additions</u>		<u>Retirements</u>		<u>Transfers</u>		<u>8/31/2005</u>
Capital Assets:									
Land	\$ 246,224	\$		\$		\$		\$	246,224
Building	18,981,502		245,061		(93,193)		90,036		19,223,406
Equipment/Vehicles	1,429,063		201,206		(134,458)		198,858		1,694,669
Leased Equipment	528,436		133,476				(198,858)		463,054
Construction Work in Progress	67,444		22,592				(90,036)		0
	<u>\$ 21,252,669</u>	\$	<u>\$ 602,335</u>	\$	<u>\$(227,651)</u>	\$	<u>0</u>	\$	<u>\$ 21,627,353</u>
Accumulated Depreciation									
Buildings	\$ 6,687,074	\$	786,398	\$	(93,193)	\$		\$	7,380,279
Equipment/Vehicles	1,035,822		179,006		(134,458)		(97,627)		982,743
Leased Equipment	126,190		49,705				97,627		273,522
	<u>\$ 7,849,086</u>	\$	<u>\$ 1,015,109</u>	\$	<u>\$(227,651)</u>	\$	<u>0</u>	\$	<u>\$ 8,636,544</u>
Total Net Value of Capital Assets	<u>\$ 13,403,583</u>	\$	<u>\$(412,774)</u>	\$	<u>0</u>	\$	<u>0</u>	\$	<u>\$ 12,990,809</u>

**SHALLOWATER INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Depreciation Expense was spread by function as follows:

Instruction	\$ 432,182
Instruction Resources and Media Services	9,713
Curriculum and Instructional Staff Development	4,197
Instructional Leadership	18,311
School Leadership	36,218
Guidance, Counseling, and Evaluation Services	45,894
Health Services	7,875
Student Transportation	140,817
Food Services	39,898
Extracurricular Activities	55,954
General Administration	89,252
Plant Maintenance and Operations	97,442
Security and Monitoring Services	3,646
Data Processing Services	<u>33,710</u>
	<u>\$ 1,015,109</u>

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

Buildings and Improvements	15 – 30 years
Furniture and Equipment	5 – 20 years
Vehicles	5 – 10 years

7. DEFERRED REVENUES

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Deferred revenues consisted of the following at August 31, 2005:

	<u>General Fund</u>	<u>Debt Service Fund</u>
Property Taxes - Delinquent	\$ 209,801	\$ 45,049
Less: Allowance for Uncollectible Taxes	<u>15,259</u>	<u>12,833</u>
Total Deferred Tax Revenues	<u>\$ 194,542</u>	<u>\$ 32,216</u>

**SHALLOWATER INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

8. LONG-TERM DEBT

General Obligation Bonds

A summary of changes in bonds payable for the year ended August 31, 2005, is as follows:

Description	Interest Rate	Amount Originally Issued	Amount Outstanding 9/1/2004	Increases Current Year	Retired Current Year	Amount Outstanding 8/31/2005
1992 Unlimited Tax Refunding Bonds						
Current Interest Bonds	3.7 - 6.3%	\$ 2,010,000	\$ 280,000	\$	\$ 280,000	\$ 0
Capital Appreciation Bonds	6.25 - 6.35%	44,008	44,008			44,008
Accumulated Accretion on Capital Appreciation Bonds	N/A		697,562	47,519		745,081
1998 Unlimited Tax Building Bonds	5.00%	3,685,000	3,260,000		100,000	3,160,000
2001 Unlimited Tax Building Bonds	5.00%	4,445,000	4,265,000		70,000	4,195,000
2005 Unlimited Tax Building Bonds	4.75%-4.875	<u>7,310,000</u>	<u></u>	<u>7,310,000</u>	<u></u>	<u>7,310,000</u>
		<u>\$ 17,494,008</u>	<u>\$ 8,546,570</u>	<u>\$ 7,357,519</u>	<u>\$ 450,000</u>	<u>\$ 15,454,089</u>

Interest expenditures for bonded debt for the year ended August 31, 2005, totaled \$414,255.

Debt service requirements are as follows:

Fiscal Year Ending August 31,	Principal	Interest	Total
2006	197,760	988,261	1,186,021
2007	204,543	977,866	1,182,409
2008	211,705	963,079	1,174,784
2009	215,000	677,978	892,978
2010	225,000	666,766	891,766
2011-2015	1,330,000	3,159,933	4,489,933
2016-2020	1,750,000	2,791,227	4,541,227
2021-2025	2,175,000	2,311,963	4,486,963
2026-2030	4,265,000	1,549,240	5,814,240
2031-2035	<u>4,135,000</u>	<u>493,804</u>	<u>4,628,804</u>
	<u>\$ 14,709,008</u>	<u>\$ 14,580,117</u>	<u>\$ 29,289,125</u>

**SHALLOWATER INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

Obligations under Capital Lease

A summary of the activity for the District's capital lease obligations is as follows:

Date of Issue	Description	Interest Rate	Amounts Outstanding 9/1/2004	Issued Current Year	Retired Current Year	Amounts Outstanding 8/31/2005
9/3/2002	Copier Lease	8.78%	\$ 8,227	\$	\$ 7,897	\$ 330
7/2/2003	Computer Lease	7.12%	8,146		8,146	0
8/8/2003	Copier Lease	7.74%	42,304		21,291	21,013
9/3/2003	Tractor Lease	6.62%	17,638		3,988	13,650
1/28/2004	Fitness Equipment Lease	3.75%	180,715		72,801	107,914
9/1/2004	Copier Lease	7.68%		14,500	3,278	11,222
9/1/2004	Blue Star Bus Lease	5.00%		118,975	41,642	77,333
	Total Leases		\$ 257,030	\$ 133,475	\$ 159,043	\$ 231,462

There are three capital leases for copiers. A copier lease for four copiers originated in September of 2002 for \$21,000. A copier lease for five copiers originated in August of 2003 for \$64,000. Also, a copier lease for one copier originated in September of 2004 for \$14,500. During the year the District made payments on these leases in the amount of \$36,340, including interest of \$3,874.

A computer lease was originated in July of 2003 for \$21,803. Payments totaling \$8,800 were made this year, including interest of \$653.

The John Deere tractor lease originated in September of 2003 for \$22,638. Payments totaling \$5,158 were made during the year, including interest of \$1,169.

The Fitness Equipment lease originated in January of 2004 for \$221,940. Payments totaling \$78,335 were made during the year including interest of \$5,534.

The District entered into a lease for a bus in September of 2004 for \$118,975. Payments totaling \$41,641 were made during the year. No interest has yet been paid.

Future minimum payments for these leases are as follows:

Fiscal Year	
<u>Ending August 31,</u>	
2006	\$ 153,210
2007	83,639
2008	9,358
Total Payments	\$ 246,207
Less: Interest	14,745
Total Principal	\$ 231,462

**SHALLOWATER INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

9. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property Taxes, Penalties, Interest, and Other Tax-Related Income	\$ 1,781,490	\$	\$ 260,704	\$	\$ 2,042,194
Food Sales		205,576			205,576
Interest Income	79,093		17,167	36,962	133,222
Co-curricular Student Activities	39,101				39,101
Rent	14,855				14,855
Other	206,160	614,081			820,241
	<u>\$ 2,120,699</u>	<u>\$ 819,657</u>	<u>\$ 277,871</u>	<u>\$ 36,962</u>	<u>\$ 3,255,189</u>

10. DEFINED BENEFIT PENSION PLAN

Plan Description – All employees of Shallowater Independent School District employed for one-half or more of the standard workload and who are not exempt from membership under Texas Government Code participate in 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 system of Texas. It operates primarily under the provisions of the Texas Constitution and Texas Government Code. TRS also administers proportional retirement benefits and service credit transfers under Texas Government Code. 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 TRS at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publication heading.

Funding Policy – State law provides for fiscal years 2003, 2004, and 2005, a state contribution rate of 6.0% and a member contribution rate of 6.4%. In certain instances the 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 state funding policy. State contributions TRS made on behalf of the District’s employees for the years ended August 31, 2003, 2004, and 2005, were \$315,286, \$361,142, and \$369,922, respectively. The amounts contributed by the State are reflected in the financial statements in the general fund by respective function, in accordance with Governmental Accounting Standards Board Statement No. 24. The District paid additional state contributions for the years ended August 31, 2003, 2004, and 2005 in the amount of \$30,572, \$48,954, and \$56,541, respectively, on the portion of the employees salaries that exceeded the statutory minimum and those salaries funded from federal grants, equal to the required contributions for each year.

The payroll for employees covered by the System for the years ended August 31, 2003, 2004, and 2005, were \$5,320,036, \$5,659,569, and \$6,229,377, respectively. The school district’s total payroll was \$5,635,110, \$5,992,241, and \$6,564,356, respectively.

**SHALLOWATER INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS**

11. SELF-INSURANCE – WORKMEN'S COMPENSATION

The District participates in a public entity risk pool for its Workmen's Compensation Insurance needs. Over one hundred school districts participate in the pool administered by Claims Administrative Services, Inc. The agreement between Shallowater Independent School District and the pool is renewable annually on September 1. The District's maximum loss under the agreement for 2005 was set at \$59,781, excluding fixed costs of \$26,454. The pool is protected against unanticipated catastrophic loss by stop-loss coverage provided through Midwest Employers Casualty Corporation. The stop-loss policy covers individual claims in excess of \$500,000 per incident. The District accounts for its costs associated with the pool through an internal service fund.

The claims administrator for the pool has estimated the District's share of unpaid claims as of August 31, 2005, to be \$105,468, including estimated claims incurred but not reported of \$81,858. The District has recorded claims payable of \$105,468 at August 31, 2005, related to this liability.

12. HEALTH INSURANCE

During the year ended August 31, 2005, employees of the District were covered by a health insurance plan through TRS – Active Care Program administered by the Teacher Retirement System. The District contributed \$225 of the employee-only premium per month and employees, at their option, authorized payroll withholdings to pay contributions for dependents. Under this plan, the District is not liable for costs incurred beyond the premiums paid.

13. LITIGATION

There is no litigation pending against the District which would have a material effect on the financial statements.

14. COMMITMENTS AND CONTINGENCIES

Federal and State Funding

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, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

15. INTERNAL SERVICE FUND DEFICIT

The District's worker's compensation internal service fund has a deficit of (\$18,331) at August 31, 2005. This deficit is due to the accrual of claims incurred, but not paid (including IBNR) which represents claims to be paid in the future. The deficit will be funded through ongoing revisions of the contribution rates for worker's compensation benefits and, if needed, supplemental transfers from the general fund.

REQUIRED SUPPLEMENTARY INFORMATION

OTHER SUPPLEMENTARY INFORMATION

EXHIBITS H-1 THROUGH J-6

OVERALL COMPLIANCE AND INTERNAL CONTROL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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

Board of School Trustees
Shallowater Independent School District
Shallowater, Texas

We have audited the basic financial statements of Shallowater Independent School District as of and for the year ended August 31, 2005, and have issued our report thereon dated September 22, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

September 22, 2005

**SHALLOWATER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATE FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2005**

Current Year Findings –

None

Corrective Action Plan –

N/A

Status of Prior Year Findings –

N/A

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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

Board of School Trustees
Shallowater Independent School District
Shallowater, Texas

Compliance

We have audited the compliance of Shallowater Independent School District with the types of compliance requirements described in the U. S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2005. Shallowater Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of A-133 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 Shallowater Independent School District's management. Our responsibility is to express an opinion on Shallowater Independent School 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 Shallowater Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Shallowater Independent School District's compliance with those requirements.

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

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grant agreements 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 Board of School Trustees, management and federal awarding agencies and pass-through entities, and is not intended and should not be used by anyone other than these specified parties.

Balinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

September 22, 2005

FEDERAL FINANCIAL ASSISTANCE SECTION

**SHALLOWATER INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF A-133 FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2005**

I. Summary of Auditors' Results

1. Type of auditor's report issued on the financial statements: **Unqualified**
2. Reportable conditions: **None.**
3. There were no reportable conditions noted; therefore, there were no material weaknesses.
4. Noncompliance which is material to the financial statements: **None**
5. Type of auditor's report on compliance for major programs: **Unqualified**
6. Did the audit disclose findings which are required to be reported under Sec. __510(a): **No**
7. Major programs include:
 - 84.027 – IDEA – Part B Formula
 - 84.173 – IDEA – Part B Preschool
8. Dollar threshold used to distinguish between Type A and Type B programs: **\$300,000**
9. Low risk auditee: **Yes**

II. Findings Related to the Financial Statements

The audit disclosed no findings required to be reported.

III. Findings and Questioned Costs Related to the Federal Awards

The audit disclosed no findings required to be reported.

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

Prior Year's Finding/Noncompliance

N/A

Status of Prior Year's Finding/Noncompliance

N/A

**SHALLOWATER INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2005**

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Shallowater 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 States, 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.

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

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1623 10TH STREET

LUBBOCK, TEXAS 79401-2685

September 22, 2005

Board of School Trustees
Shallowater Independent School District
Shallowater, Texas

As part of our responsibility in the conduct of the audit for the period ended August 31, 2005, we are required to determine that certain matters related to the conduct of the audit are communicated to those who have responsibility for oversight of the financial reporting process. It is our understanding that the oversight of the financial reporting process is your responsibility, and as such, this communication is directed to you.

Auditors' Responsibility Under U. S. Generally Accepted Auditing Standards

As stated in our engagement letter dated April 15, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U. S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute, assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us. As part of our audit, we considered the internal control of Shallowater Independent School District. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the organization are described in Note 1 to the financial statements. No new accounting policies were adopted, and the application of existing policies was not changed during the audit period. We noted no transactions entered into by the organization during the audit period that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based upon management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates can be particularly

sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We feel these estimates are reasonable for the audit period.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the organization's financial reporting process (that is, cause future financial statements to be materially misstated). We did not make any adjustments that we considered to be significant to the financial reporting process.

Other Information in Documents Containing Audited Financial Statements

We are not aware of any client-prepared documents that include the audited financial statements and that contain other information.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. No such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to contact us to determine whether the consultant has all the relevant facts. To our knowledge, management has not consulted with other accountants about auditing and accounting matters.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the organization's auditors. However, these discussions occurred in the normal course of our professional relationship, and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties with management in performing and completing our audit.

This information is intended solely for the use of those with the oversight responsibility over the financial reporting process, including the audit committee, Board of Trustees, and management, and is not intended to be and should not be used by anyone other than these specified parties. If you should have any questions or wish to discuss any of the items referred to above in further detail, please do not hesitate to contact our office.

Balinger, Segars, Gilbert & Moss LLP

Certified Public Accountants