

ANNUAL FINANCIAL REPORT

of the

**HITCHCOCK
INDEPENDENT SCHOOL DISTRICT**

For the Year Ended
August 31, 2014

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HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

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INDEPENDENT SCHOOL DISTRICT
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INTRODUCTORY SECTION

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CERTIFICATE OF BOARD

Hitchcock
Independent School District

Name of School District

Galveston

County

084908

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, 2014, at a meeting of the Board of Trustees of such school district on the 27th day of January 2015.

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)

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of the
Hitchcock Independent School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hitchcock Independent School District (the "District") as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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Governmental
Audit Quality Center

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2014, and the respective changes in financial position, for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section and combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The 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 also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the financial statements.

The combining and individual nonmajor fund financial statements, the schedule of expenditures of federal awards, and other supplementary information are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and schedule labeled "unaudited" have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated on January 22, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
January 22, 2015

***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

HITCHCOCK INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended August 31, 2014

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the Hitchcock Independent School District (the "District") for the year ending August 31, 2014. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the District's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position at year end was \$9,630,962.
- For the fiscal year ended August 31, 2014, the District's general fund reported a total fund balance of \$3,863,667, of which \$127,290 is nonspendable for inventories and prepaid items and \$3,736,377 is unassigned.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds, the debt service fund, and the capital projects fund) reported combined ending fund balances of \$5,307,011.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts – *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The basic 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.
- *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 fiduciary resources belong. This fund includes student activity funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes to the financial statements are followed by a section entitled *Required Supplementary Information* that further explains and supports the information in the financial statements.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2014

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The government-wide statements report information about the District as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the District as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the District's financial statements, report information on the District's activities that enable the reader to understand the financial condition of the District. These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other non-financial factors, such as changes in the District's tax base, staffing patterns, enrollment, and attendance, need to be considered in order to assess the overall health of the District.

The Statement of Activities presents information showing how the District's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities include the following class of activities:

Governmental Activities – Most of the District's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant operation and maintenance are included in *governmental activities*. Locally assessed property taxes, together with State foundation program entitlements, which are based upon student enrollment and attendance, finance most of the governmental activities.

The government-wide financial statements can be found after the MD&A.

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 simply accounting devices that are used to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and other funds are mandated by bond agreements or bond covenants.
- The Board of Trustees establishes other funds to control and manage money set aside for particular purposes or to show that the District is properly using certain taxes and grants.
- Other funds are used to account for assets held by the District in a custodial capacity – these assets do not belong to the District, but the District is responsible to properly account for them.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2014

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 explains the relationship (or differences) between them.
- *Fiduciary funds* – The District serves as the trustee, or fiduciary, for certain funds such as student activity funds. 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 that are 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 position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was \$9,630,962 at year end. *Table 1* focuses on net position while *Table 2* shows the revenues and expenses that changed the net position balance during the fiscal year ended August 31, 2014. The District reported an decrease of \$555,529 in net position from the prior year. This was primarily due to an increase in maintenance expenses to repair the District's buildings.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2014

Table 1
Net Position

<u>Description</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>2014</u>	<u>2013</u>	<u>Change</u> <u>2014-2013</u>
Current assets	\$ 7,864,366	\$ 8,375,721	\$ (511,355)
Capital assets	39,298,826	37,891,093	1,407,733
Total Assets	<u>47,163,192</u>	<u>46,266,814</u>	<u>896,378</u>
Deferred charge on refunding	26,505	39,658	(13,153)
Total Deferred Outflows of Resources	<u>26,505</u>	<u>39,658</u>	<u>(13,153)</u>
Current liabilities	1,809,716	1,602,688	207,028
Long-term liabilities	35,749,019	34,517,293	1,231,726
Total Liabilities	<u>37,558,735</u>	<u>36,119,981</u>	<u>1,438,754</u>
Net Position:			
Net investment in capital assets	3,549,807	3,373,800	176,007
Restricted	1,443,344	2,305,313	(861,969)
Unrestricted	4,637,811	4,507,378	130,433
Total Net Position	<u>\$ 9,630,962</u>	<u>\$ 10,186,491</u>	<u>\$ (555,529)</u>

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2014

Table 2
Changes in Net Position

	Governmental Activities		Total Change
	2014	2013	2014-2013
Revenues			
Program revenues:			
Charges for services	\$ 93,971	\$ 85,556	\$ 8,415
Operating grants and contributions	4,372,700	5,139,649	(766,949)
General revenues:			
Property taxes	7,531,688	7,382,002	149,686
State aid - formula grants	5,296,662	4,343,866	952,796
Grants and contributions not restricted	847,324	761,160	86,164
Investment earnings	26,337	51,839	(25,502)
Miscellaneous	1,555,628	2,025,100	(469,472)
Total Revenue	19,724,310	19,789,172	(64,862)
Expenses			
Instruction	8,562,937	7,863,249	699,688
Instructional resources and media services	136,121	140,167	(4,046)
Curriculum and staff development	414,493	424,498	(10,005)
Instructional leadership	279,476	224,763	54,713
School leadership	1,015,123	1,056,995	(41,872)
Guidance, counseling and evaluation services	1,090,519	938,719	151,800
Social work services	94,650	94,011	639
Social work/health services	236,330	209,788	26,542
Student (pupil) transportation	690,141	672,511	17,630
Food services	975,054	865,366	109,688
Co-curricular/extracurricular activities	510,629	414,806	95,823
General administration	765,930	708,235	57,695
Plant maintenance and operations	3,223,705	1,596,504	1,627,201
Security and monitoring	103,924	100,341	3,583
Data processing services	256,161	253,932	2,229
Community services	39,422	30,998	8,424
Interest on long-term debt	1,316,024	1,283,963	32,061
Capital outlay	-	322,605	(322,605)
Payments related to shared service arrangements	505,105	1,225,370	(720,265)
Payments to juvenile justice programs	360	1,630	(1,270)
Other intergovernmental charges	63,735	56,532	7,203
Total Expenses	20,279,839	18,484,983	1,794,856
Change in Net Position	(555,529)	1,304,189	(1,859,718)
Beginning net position	10,186,491	8,882,302	1,304,189
Ending Net Position	\$ 9,630,962	\$ 10,186,491	\$ (555,529)

Revenues from governmental activities total \$19,724,310, which is a decrease of \$64,862 from the 2013 fiscal year and is mainly due to a decrease in operating grants and operations, state aid – formula grants, grants and contributions, and miscellaneous revenues. Property tax revenue is the District's largest source of revenue, which totaled \$7,531,688 for the year. This represents an increase of \$149,686 compared to the previous year.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2014

Expenses for governmental activities totaled \$20,279,839, which was an increase of \$1,794,856 and is mainly due to higher expenses that are associated with repairing the District's buildings and expenses related to an increase in payroll.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ended August 31, 2014, the District's governmental funds reported a combined fund balance of \$5,307,011. The combined fund balance decreased \$732,679 from prior year. At the close of the fiscal year ended August 31, 2014, the District's fund balance in the general fund decreased primarily due to expenditures on repair of the District's building. The debt service fund increased slightly due to property tax revenue being comparative to debt service payments. The District obtained a building improvement loan to improve the District's facilities for \$2,775,014.

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the food service special revenue fund, and the debt service fund. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended August 31, 2014, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenses. The general fund's actual revenues exceeded budgeted revenues by \$58,411 due to increase in foundation revenue. Budgeted expenditures exceeded actual expenditures by \$241,276.

CAPITAL ASSETS

Capital assets are generally defined as those items that have useful lives of two years or more and have an initial cost or value (if donated) of an amount determined by the Board of Trustees. During the year, the District used a capitalization threshold of \$5,000, which means that all capital type assets, including library books, with a cost or initial value of less than \$5,000 were not included in the capital assets inventory.

At year end, the District had a total of \$39,298,826 invested in capital assets (net of depreciation) such as land, buildings, and District equipment. This total includes \$2,775,014 invested during the fiscal year ended August 31, 2014.

More detailed information about the District's capital assets can be found in the notes to the financial statements.

LONG-TERM DEBT

At year end, the District had \$35,596,112 in general obligation bonds, notes, and other payables outstanding versus \$34,324,612 last year. The net decrease of \$1,503,514 is due to the principal payments paid during the year.

More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's budgeted expenditures for the 2014-2015 school year total \$12,328,096 and the District's Board of Trustees adopted a maintenance and operations tax rate of \$1.04 and an interest and sinking rate of \$.50 for a combined rate of \$1.54.

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 7801 Neville Avenue, Hitchcock, Texas 77563.

BASIC FINANCIAL STATEMENTS

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION - EXHIBIT A-1

August 31, 2014

1

<u>Data Control Codes</u>		<u>Governmental Activities</u>
	<u>Assets</u>	
1110	Cash and cash equivalents	\$ 4,663,491
1220	Property taxes - delinquent	1,076,240
1230	Allowance for uncollectible taxes	(328,602)
1240	Due from other governments	1,887,981
1290	Other receivables	409,825
1300	Inventories, at cost	33,035
1410	Prepaid items	94,255
		<u>7,864,366</u>
	Capital assets:	
1510	Land	1,674,919
1520	Buildings, net	37,076,993
1530	Furniture and equipment, net	215,226
1540	Vehicles, net	331,688
		<u>39,298,826</u>
1000	Total Assets	<u>47,163,192</u>
	<u>Deferred Outflows of Resources</u>	
1600	Deferred charge on refunding	<u>26,505</u>
	<u>Liabilities</u>	
2110	Accounts payable	381,675
2160	Accrued wages payable	241,681
2180	Due to other governments	1,149,619
2200	Accrued expenses	35,264
2300	Unearned revenue	1,477
		<u>1,809,716</u>
	Noncurrent liabilities:	
2501	Long-term liabilities due within	
2501	one year	1,674,605
2502	Long-term liabilities due in more	
2502	than one year	34,074,414
		<u>35,749,019</u>
2000	Total Liabilities	<u>37,558,735</u>
	<u>Net Position</u>	
3200	Net investment in capital assets	3,549,807
	Restricted for:	
3850	Debt service	1,279,290
3890	Other purposes	164,054
3900	Unrestricted	4,637,811
3000	Total Net Position	<u>\$ 9,630,962</u>

See Notes to Financial Statements.

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES - EXHIBIT B-1

For the Year Ended August 31, 2014

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
			3 Charges for Services	4 Operating Grants and Contributions	
					6 Primary Gov. Governmental Activities
	Primary Government				
	Governmental Activities				
0011	Instruction	\$ 8,562,937	\$ -	\$ 1,877,620	\$ (6,685,317)
0012	Instructional resources				
0012	and media services	136,121	-	-	(136,121)
0013	Curriculum/instructional				
0013	staff development	414,493	-	138,097	(276,396)
0021	Instructional leadership	279,476	-	268,969	(10,507)
0023	School leadership	1,015,123	-	140,481	(874,642)
0031	Guidance, counseling,				
0031	and evaluation services	1,090,519	-	556,236	(534,283)
0032	Social work services	94,650	-	94,650	-
0033	Health services	236,330	-	54,467	(181,863)
0034	Student (pupil) transportation	690,141	-	171,975	(518,166)
0035	Food services	975,054	93,971	862,821	(18,262)
0036	Extracurricular activities	510,629	-	-	(510,629)
0041	General administration	765,930	-	5,764	(760,166)
0051	Plant maintenance and operations	3,223,705	-	166,138	(3,057,567)
0052	Security and monitoring services	103,924	-	1,645	(102,279)
0053	Data processing services	256,161	-	-	(256,161)
0061	Community services	39,422	-	21,408	(18,014)
0072	Interest - long term debt	1,316,024	-	-	(1,316,024)
0093	Payments to fiscal agent/member				
0093	districts of SSA	505,105	-	12,429	(492,676)
0095	Payments to juvenile justice	360	-	-	(360)
0099	Other intergovernmental charges	63,735	-	-	(63,735)
	Total Governmental Activities	<u>\$ 20,279,839</u>	<u>\$ 93,971</u>	<u>\$ 4,372,700</u>	<u>(15,813,168)</u>
TP	Total Primary Government	<u>\$ 20,279,839</u>	<u>\$ 93,971</u>	<u>\$ 4,372,700</u>	<u>(15,813,168)</u>
	General Revenues				
MT	Property taxes, levied for general purposes				5,181,353
DT	Property taxes, levied for debt service				2,350,335
SF	State aid - formula grants				5,296,662
GC	Grants and contributions not restricted				847,324
IE	Investment earnings				26,337
MI	Miscellaneous local and intermediate revenue				1,555,628
TR				Total General Revenues	<u>15,257,639</u>
CN				Change in Net Position	<u>(555,529)</u>
NB	Beginning net position				<u>10,186,491</u>
NE				Ending Net Position	<u>\$ 9,630,962</u>

See Notes to Financial Statements.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS - EXHIBIT C-1
August 31, 2014

Data Control Codes		10	Special Education Cooperative	50	60
		General		Debt Service	Capital Projects
	<u>Assets</u>				
1110	Cash and cash equivalents	\$ 1,536,748	1,778,444	\$ 1,042,326	\$ 75,583
1220	Property taxes - delinquent	790,036	-	286,204	-
1230	Allowance for uncollectible taxes	(262,828)	-	(65,774)	-
1240	Due from other governments	613,571	986,067	-	-
1260	Due from other funds	1,891,096	-	236,964	-
1290	Other receivables	409,825	-	-	-
1300	Inventories, at cost	33,035	-	-	-
1410	Prepaid items	94,255	-	-	-
1000	Total Assets	\$ 5,105,738	\$ 2,764,511	\$ 1,499,720	\$ 75,583
	<u>Liabilities</u>				
2110	Accounts payable	\$ 247,489	11,569	\$ -	\$ -
2160	Accrued wages payable	200,941	8,557	-	-
2170	Due to other funds	236,964	1,594,316	-	75,583
2180	Due to other governments	-	1,149,619	-	-
2200	Accrued expenses	29,468	450	-	-
2300	Unearned revenue	-	-	-	-
2000	Total Liabilities	714,862	2,764,511	-	75,583
	<u>Deferred Inflows of Resources</u>				
2600	Unavailable revenue - property taxes	527,209	-	220,430	-
	<u>Fund Balances</u>				
	Non-spendable				
3410	Inventories	33,035	-	-	-
3430	Prepaid items	94,255	-	-	-
	Restricted				
3450	Grant funds	-	-	-	-
3480	Debt service	-	-	1,279,290	-
3600	Unassigned	3,736,377	-	-	-
3000	Total Fund Balances	3,863,667	-	1,279,290	-
4000	Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 5,105,738	\$ 2,764,511	\$ 1,499,720	\$ 75,583

See Notes to Financial Statements.

Nonmajor Governmental Funds	98 Total Governmental Funds
\$ 230,390	\$ 4,663,491
-	1,076,240
-	(328,602)
288,343	1,887,981
-	2,128,060
-	409,825
-	33,035
-	94,255
<u>\$ 546,874</u>	<u>\$ 9,992,426</u>
\$ 122,617	\$ 381,675
32,183	241,681
221,197	2,128,060
-	1,149,619
5,346	35,264
1,477	1,477
<u>382,820</u>	<u>3,937,776</u>
<u>-</u>	<u>747,639</u>
-	33,035
-	94,255
164,054	164,054
-	1,279,290
-	3,736,377
<u>164,054</u>	<u>5,307,011</u>
<u>\$ 546,874</u>	<u>\$ 9,992,426</u>

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION - EXHIBIT C-1R
August 31, 2014

Total fund balances for governmental funds	\$	5,307,011
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets - non-depreciable	1,674,919	
Capital assets - depreciable	<u>37,623,907</u>	
		39,298,826

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

747,639

Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.

Deferred charge on refunding	26,505	
Non-current liabilities due in one year	(1,674,605)	
Non-current liabilities due in more than one year	<u>(34,074,414)</u>	
		<u>(35,722,514)</u>

Net Position of Governmental Activities

\$ 9,630,962

See Notes to Financial Statements.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - EXHIBIT C-2
For the Year Ended August 31, 2014

Data Control Codes		General	Special Education Cooperative	Debt Service	Capital Projects
Revenues					
5700	Local, intermediate, and out-of-state	\$ 6,075,718	\$ 590	\$ 2,534,382	\$ -
5800	State program revenues	5,785,919	429,683	-	-
5900	Federal program revenues	583,037	160,753	264,287	-
5020	Total Revenues	<u>12,444,674</u>	<u>591,026</u>	<u>2,798,669</u>	<u>-</u>
Expenditures					
0011	Instruction	5,565,368	168,688	-	-
0012	Instruction resources and media services	136,121	-	-	-
0013	Curriculum/instructional staff development	276,396	1,070	-	-
0021	Instructional leadership	10,507	268,969	-	-
0023	School leadership	874,642	-	-	-
0031	Guidance, counseling, evaluation services	534,283	137,071	-	-
0032	Social work services	-	-	-	-
0033	Health services	181,863	-	-	-
0034	Student (pupil) transportation	405,000	-	-	-
0035	Food services	9,000	-	-	-
0036	Extracurricular activities	483,295	-	-	-
0041	General administration	757,800	4,856	-	-
0051	Plant maintenance and operations	2,994,088	10,372	-	-
0052	Security and monitoring services	102,279	-	-	-
0053	Data processing services	256,161	-	-	-
0061	Community services	17,460	-	-	-
Debt service:					
0071	Principal	81,448	-	1,422,066	-
0072	Interest and fiscal charges	32,522	-	1,310,123	-
0081	Capital outlay	-	-	-	2,775,014
Intergovernmental:					
0093	Payments to member districts of SSA	492,676	-	-	-
0095	Payments to juvenile justice programs	360	-	-	-
0099	Other intergovernmental charges	63,735	-	-	-
6030	Total Expenditures	<u>13,275,004</u>	<u>591,026</u>	<u>2,732,189</u>	<u>2,775,014</u>
1100	Excess (Deficiency) of Revenues				
1100	Over (Under) Expenditures	<u>(830,330)</u>	<u>-</u>	<u>66,480</u>	<u>(2,775,014)</u>
Other Financing Sources (Uses)					
7911	Bond proceeds	-	-	-	2,775,014
7080	Total Other Financing Sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,775,014</u>
1200	Net Change in Fund Balances	<u>(830,330)</u>	<u>-</u>	<u>66,480</u>	<u>-</u>
0100	Beginning fund balances	4,693,997	-	1,212,810	-
3000	Ending Fund Balances	<u>\$ 3,863,667</u>	<u>\$ -</u>	<u>\$ 1,279,290</u>	<u>\$ -</u>

See Notes to Financial Statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 93,971	\$ 8,704,661
127,837	6,343,439
3,653,837	4,661,914
<u>3,875,645</u>	<u>19,710,014</u>
1,677,761	7,411,817
-	136,121
137,027	414,493
-	279,476
140,481	1,015,123
419,165	1,090,519
94,650	94,650
54,467	236,330
171,975	576,975
956,792	965,792
-	483,295
908	763,564
155,766	3,160,226
1,645	103,924
-	256,161
21,408	38,868
-	1,503,514
-	1,342,645
-	2,775,014
12,429	505,105
-	360
-	63,735
<u>3,844,474</u>	<u>23,217,707</u>
<u>31,171</u>	<u>(3,507,693)</u>
-	2,775,014
-	<u>2,775,014</u>
31,171	(732,679)
132,883	6,039,690
<u>\$ 164,054</u>	<u>\$ 5,307,011</u>

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HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - EXHIBIT C-3

For the Year Ended August 31, 2014

Net changes in fund balances - total governmental funds	\$ (732,679)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation	(1,367,281)
Capital outlay	2,775,014

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	14,296
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The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when it is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Principal repayments	1,503,514
Amortization of other items	26,621
Debt issued	<u>(2,775,014)</u>

Change in Net Position of Governmental Activities	\$ <u>(555,529)</u>
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See Notes to Financial Statements.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS - EXHIBIT E-1
August 31, 2014

Data Control Codes		<u>Agency</u>
	<u>Assets</u>	
1110	Cash and cash equivalents	\$ 49,277
1000		<u>\$ 49,277</u>
	Total Assets	
	<u>Liabilities</u>	
	Current liabilities:	
2190	Due to student groups	\$ 49,277
2000		<u>\$ 49,277</u>
	Total Liabilities	

See Notes to Financial Statements.

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Hitchcock Independent School District (the “District”) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units in conjunction with the Texas Education Agency’s Financial Accountability System Resource Guide (“Resource Guide”). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

A. Reporting Entity

The Board of School Trustees (“Board”), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and 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 the statute to the Texas Education Agency (TEA) or to the State Board of Education are reserved for the Board, and the 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 requirements of those funding entities. However, the District is not included in any other governmental “reporting entity” as defined by the GASB in its Statement No. 14, “The Financial Reporting Entity,” as revised by GASB Statement No. 39, and there are no component units included within the reporting entity.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. *Governmental activities* are normally supported by taxes, intergovernmental revenues, and other nonexchange transactions.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and various other functions of the District. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District’s funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. 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 nonmajor funds.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2014

The District reports the following governmental funds:

General Fund

The general fund is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The general fund is considered a major fund for reporting purposes.

Debt Service Fund

The debt service fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest on all long-term debt of the District. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

Capital Projects Funds

The capital projects fund is used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The capital projects fund is considered a major fund for reporting purposes.

Special Revenue Funds

The special revenue funds are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specific purposes other than debt service or capital projects. The restricted proceeds of specific revenue sources comprise a substantial portion of the inflows of these special revenue funds. Most federal and some state financial assistance is accounted for in a special revenue fund. The special education cooperative is considered a major fund for reporting purposes.

Additionally, the District reports the following fund type:

Fiduciary Funds

The fiduciary funds account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District has the following type of fiduciary funds:

Agency Funds

The agency funds are custodial in nature and do not present results of operations or have a measurement focus. Agency funds are accounted for using the accrual basis of accounting. These funds are used to account for the District's student activity funds.

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2014

eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and fiduciary fund financial statements are 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. 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 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 District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the District.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2014

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

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

2. Deposits and Investments

In accordance with GASB Statement No. 31, "*Accounting and Reporting for Certain Investments and External Investment Pools*," the District reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Governmental Code. In summary, the District is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools and commercial paper

3. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to the future accounting period (prepaid expenditures) and are recognized as expenditures when utilized.

4. Capital Assets

Capital assets, which include land, buildings, furniture, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2014

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

Asset Description	Estimated Useful Life
Buildings and improvements	20 to 40 years
Vehicles	10 years
Equipment	8 to 20 years

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

Long-term debt for governmental funds is not reported as a liability in the fund financial statements until due. The debt proceeds are reported as other financing sources, net of the applicable premium or discount and payment of principal and interest reported as expenditures. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures. However, claims and judgments paid from governmental funds are reported as a liability in the fund financial statements only for the portion expected to be financed from expendable, available financial resources.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2014

7. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

8. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

9. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The Board of Trustees is the highest level of decision-making authority for the District that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board of Trustees may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

10. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2014

and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

11. Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the Resource Guide. The TEA requires school districts to display these codes in the financial statements filed with the TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *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 or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

All taxes due to the District on real or personal property are payable at the Office of the Tax Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed and approved, which is no later than October 1. Taxes are due by January 31, and all taxes not paid prior to this date are deemed delinquent and are subject to such penalty and interest.

Property taxes attach as an enforceable lien on property as of January 1 each year. Taxes are levied on October 1 and are payable prior to the next February 1. District property tax revenues are recognized when collected.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The original budget is adopted by the District prior to the beginning of the year. The legal level of control is the function code stated in the approved budget. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year.

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the national school lunch and breakfast program special revenue fund, and the debt service fund. The District budgets the capital projects fund for each *project*, which normally covers multiple years. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the year, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenditures. There were no material changes between the original budget and the final amended budget.

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2014

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires funds on deposit at the depository bank to be collateralized. As of year end, checking and time deposits were entirely insured or collateralized with securities as provided by State laws and regulations and FDIC insurance.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's investments are held in external investment pools which are not subject to custodial credit risk.

At August 31, 2014, the District's investments are rated as to credit quality as follows:

<u>Investment</u>	<u>Maturity</u>	<u>Amount</u>	<u>Credit Rating</u>
Lone Star	N/A	\$ 300,070	AAA
TexSTAR	N/A	11,399	AAAm
Texas CLASS	N/A	1,124,997	AAAm
		<u>\$ 1,436,466</u>	

Lone Star

The First Public (Lone Star) is a public funds investment pool operated under Section 2256.016 of the Public Funds Investment Act, Texas Government Code, as amended (the "Act"). Lone Star is governed by trustees comprised of active participants in Lone Star. The Board of Trustees for Lone Star has the responsibility for adopting and monitoring compliance with the investment policy, of appointing investment officers, of overseeing the selection of an investment advisor, custodian, investment consultant, administrator and other service providers. Lone Star is rated "AAA" by Standard & Poor's.

Texas Class

The Texas Cooperative Liquid Assets Securities System (Texas Class) is a public funds investment pool operated under Section 2256.016 of the Public Funds Investment Act, Texas Government Code, as amended (the "Act"). Texas Class is governed by trustees comprised of active participants in Texas Class. The Board of Trustees for Texas Class has the responsibility for adopting and monitoring compliance with the investment policy, of appointing investment officers, of overseeing the selection of an investment advisor, custodian, investment consultant, administrator and other service providers. Texas Class is rated "AAAm" by Standard & Poor's.

TexSTAR

The Texas Short Term Asset Reserve Fund ("TexSTAR") is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2014

created in April 2002 by contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators providing investment management services, participant services, and marketing, respectively. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services. Finally, Standard and Poor's rate TexSTAR AAAM.

Lone Star, Texas Class, and TexSTAR operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. These pooled investments use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in these pooled investments are the same as the value the shares.

B. Capital Assets

A summary of changes in capital assets for governmental activities at year end is as follows:

Governmental Activities:	Beginning Balances	Increases	(Decreases)	Ending Balances
Capital assets not being depreciated:				
Land	\$ 1,674,919	\$ -	\$ -	\$ 1,674,919
Total capital assets not being depreciated	1,674,919	-	-	1,674,919
Other capital assets:				
Buildings and improvements	48,667,683	2,775,014	-	51,442,697
Furniture and equipment	678,946	-	-	678,946
Vehicles	1,627,159	-	-	1,627,159
Total other capital assets	50,973,788	2,775,014	-	53,748,802
Less accumulated depreciation for:				
Buildings and improvements	(13,152,359)	(1,213,345)	-	(14,365,704)
Furniture and equipment	(404,425)	(59,295)	-	(463,720)
Vehicles	(1,200,830)	(94,641)	-	(1,295,471)
Total accumulated depreciation	(14,757,614)	(1,367,281)	-	(16,124,895)
Other capital assets, net	36,216,174	1,407,733	-	37,623,907
Governmental Activities				
Capital Assets, Net	\$ 37,891,093	\$ 1,407,733	\$ -	\$ 39,298,826

Depreciation was charged to governmental functions as follows:

11	Instruction	\$ 1,151,120
34	Student (pupil) transportation	113,166
35	Food service	9,262
36	Co-curricular/extracurricular activities	27,334
41	General administration	2,366
51	Plant maintenance and operations	63,479
61	Community services	554
Total Depreciation Expense		\$ 1,367,281

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2014

C. Long-Term Debt

The following is a summary of changes in the District's total governmental long-term liabilities for the year. In general, the District uses the debt service fund to liquidate governmental long-term liabilities.

	Original Issue	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:						
Bonds, notes and other payables:						
Series 2008-3.25% to 5.25%	\$ 23,855,000	\$ 19,905,000	\$ -	\$ (450,000)	\$ 19,455,000	\$ 475,000
Series 2005 QZAB Notes - 0%	1,221,872	570,206	-	(81,458)	488,748	81,458
Series 2010-3.85%	500,000	420,000	-	(30,000)	390,000	30,000
Series 2011-5.33%	5,400,000	5,350,000	-	(25,000)	5,325,000	25,000
Series 2011A-0.71% to 5.45%	6,626,208	6,354,406	-	(67,056)	6,287,350	36,960
Series 2012-4.23%	2,545,000	1,725,000	-	(850,000)	875,000	875,000
Building Improvement Loan 2014-2.80%	2,775,014	-	2,775,014	-	2,775,014	151,187
	<u>42,923,094</u>	<u>34,324,612</u>	<u>2,775,014</u>	<u>(1,503,514)</u>	<u>35,596,112</u>	<u>\$ 1,674,605</u>
Other Liabilities:						
Unamortized premium	-	192,681	-	(39,774)	152,907	-
Total Governmental Activities	<u>\$ 42,923,094</u>	<u>\$ 35,930,827</u>	<u>\$ 2,775,014</u>	<u>\$ (1,543,288)</u>	<u>\$ 35,749,019</u>	<u>\$ 1,674,605</u>
Long-term liabilities due in more than one year					<u>\$ 34,074,414</u>	

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

The annual requirements to amortize debt issues outstanding at year end were as follows:

Year Ended Aug 31	General Obligation Bonds		Total Requirements
	Principal	Interest	
2015	\$ 1,441,960	\$ 1,257,534	\$ 2,699,494
2016	1,478,276	1,202,233	2,680,509
2017	1,495,864	1,143,245	2,639,109
2018	1,515,576	1,081,490	2,597,066
2019	1,537,039	1,021,660	2,558,699
2020-2024	7,977,990	4,208,173	12,186,163
2025-2029	7,875,906	2,514,277	10,390,183
2030-2034	8,357,971	887,163	9,245,134
2035-2036	651,772	-	651,772
	<u>\$ 32,332,354</u>	<u>\$ 13,315,777</u>	<u>\$ 45,648,131</u>

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2014

Year Ended Aug 31	Loan/Notes Payable		Total Requirements
	Principal	Interest	
2015	\$ 232,644	\$ 76,649	\$ 309,293
2016	236,907	72,387	309,294
2017	241,290	68,004	309,294
2018	245,797	63,497	309,294
2019	250,431	58,863	309,294
2020-2024	1,000,532	220,107	1,220,639
2025-2029	1,056,160	83,020	1,139,180
	<u>\$ 3,263,761</u>	<u>\$ 642,526</u>	<u>\$ 3,906,287</u>

The value of the building improvements through the building loan is as follows:

	<u>Governmental Activities</u>
Assets:	
Building improvements	\$ 2,775,014
Less: Accumulated depreciation	(69,375)
	<u>\$ 2,705,639</u>

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, it could result in a substantial liability to the District. The District has engaged an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

D. Interfund Transactions

The interfund balances were as follows:

	<u>Due From Other Funds</u>
General fund	
Special education cooperative fund	\$ 1,594,316
Capital projects fund	75,583
Nonmajor governmental funds	221,197
Debt service fund	
General fund	236,964
Total	<u>\$ 2,128,060</u>

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2014

IV. OTHER INFORMATION

A. 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; and natural disasters for which the District purchases commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

C. Pension Plan

Teacher Retirement System

Plan Description

The District contributes to the Teacher Retirement System of Texas (TRS), a public employee retirement system. It is a cost-sharing, multiple-employer defined benefit pension plan with one exception: all risks and costs are not shared by the District, but are the liability of the State of Texas. TRS provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. TRS operates primarily under the provisions of the Texas Constitution and Texas Government Code, Title 8, Subtitle C. The Texas legislature has the authority to establish or amend benefit provisions. TRS issues a publicly available financial report that includes financial statements and Required Supplementary Information for TRS. That report may be obtained by writing to the Teacher Retirement System of Texas, 1000 Red River Street, Austin, TX 78701-2698 or by calling (800) 223-8778.

Funding Policy

Under provisions in State law, plan members are required to contribute 6.4 percent of their annual covered salary and the State of Texas contributes an amount equal to 6.58 percent of the District's covered payroll. The District's employees' contributions to the System for the years ending August 31, 2014, 2013, and 2012 were \$570,458, \$549,174, and \$553,146, respectively, and were equal to the required contributions for each year. Other contributions made from federal and private grants

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2014

and from the District for salaries above the statutory minimum for the years ending August 31, 2014, 2013, and 2012 were \$163,653, \$158,234, and \$160,862, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$482,105 during the year.

D. Retiree Health Care Plan

Plan Description

The District contributes to the Texas Public School Retired Employees Group Insurance Program ("TRS-Care"), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by TRS. TRS-Care provides health care coverage for certain persons (and their dependents) who retired under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and Required Supplementary Information for TRS-Care. That report may be obtained by visiting the TRS website at www.trs.state.tx.us; by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701; or by calling 1-800-223-8778.

Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were one percent and 0.65 percent of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55 percent for fiscal years 2013 and 2012. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25 percent or greater than 0.75 percent of the salary of each active employee of the public school. For the years ended August 31, 2014, 2013, and 2012, the State's contributions to TRS-Care were \$8,249, \$8,309, and \$19,895, respectively; the active member contributions were \$57,937, \$55,786, and \$56,179, respectively; and the District's contributions were \$49,024, \$47,203, and \$47,536, respectively; which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2014, 2013, and 2012, the subsidy payments received by TRS-Care on behalf of the District were \$23,272, \$22,515, and \$22,734, respectively.

E. Employee Health Care Coverage

During the year ended August 31, 2014, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2014

and the insurer is renewable September 1, 2014 and terms of coverage and premiums costs are included in the contractual provisions.

F. Workers' Compensation Insurance

During the year ended August 31, 2014, the District met its statutory workers' compensation obligations through participation in the Deep East Texas Self-Insurance Fund ("the Fund"). The District purchased workers' compensation coverage through the Fund, a public entity risk pool, which is self-sustained through member contributions. The Fund reinsures to statutory limits through commercial companies for claims in excess of \$850,000 for the 2013-2014 fiscal year. The Fund contracts with independent actuaries to determine the adequacy of reserves and fully funds those reserves.

Members of the Fund have no known premium liabilities for workers' compensation coverage in excess of their contracted annual premium. However, if the assets of the Fund were to be exhausted, members would be liable for their portion of the Fund's liabilities. This would indicate that members would be contingently liable for the portion of the liability applicable to their political entity. Independent auditors conduct a financial audit at the close of each plan year and, as of the most recent audit, the Fund has adequate assets to cover more than 100 percent of all liabilities.

G. Unemployment Compensation

During the year, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the unemployment compensation pool.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2013, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2014

H. Shared Service Arrangements

The District is the fiscal agent in a shared service arrangement (SSA) for the Individuals with Disabilities Education (IDEA), Part B grant. The objective of IDEA, Part B is to provide grants to assist in providing a free appropriate public education to all children with disabilities. All services are provided by the fiscal agent. The member districts provide funds to the fiscal agent. The member Districts of the SSA include Damon Independent School District, Danbury Independent School District, and Needville Independent School District.

<u>Member Districts</u>	<u>Funds</u>	<u>Expenditures</u>
Hitchcock ISD	313/314/315/437	\$ 474,150
Damon ISD	313/314/437	81,444
Danbury ISD	313/314/437	591,525
Needville ISD	313/314/437	275,120
	Total	<u>\$ 1,422,239</u>

The District is the fiscal agent for the Head Start SSA with Texas City Independent School District. The objective of Head Start is to provide low-income, disadvantaged preschool children and their families with tools that will empower them to develop fulfilling, productive, and satisfying lives. All services are provided by the fiscal agent. The member districts provide funds to the fiscal agent.

REQUIRED SUPPLEMENTARY INFORMATION

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET TO ACTUAL - GENERAL FUND - EXHIBIT G-1

For the Year Ended August 31, 2014

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
		Original	Final		
	Revenues				
5700	Total local and intermediate sources	\$ 5,503,500	\$ 5,769,503	\$ 5,438,628	\$ (330,875)
5800	State program revenues	5,344,643	5,349,670	5,785,919	436,249
5900	Federal program revenues	630,000	630,000	583,037	(46,963)
5020	Total Revenues	<u>11,478,143</u>	<u>11,749,173</u>	<u>11,807,584</u>	<u>58,411</u>
	Expenditures				
	Current:				
0011	Instruction	5,377,135	5,468,890	5,468,890	-
0012	Instructional resources				
0012	and media services	156,254	161,281	136,121	25,160
0013	Curriculum and instructional				
0013	staff development	295,915	299,932	272,559	27,373
0023	School leadership	882,951	893,461	874,642	18,819
0031	Guidance, counseling,				
0031	and evaluation services	273,535	429,213	421,334	7,879
0033	Health services	197,565	197,565	181,863	15,702
0034	Student (pupil) transportation	405,000	405,000	405,000	-
0035	Food services	15,000	15,000	9,000	6,000
0036	Extracurricular activities	498,420	498,420	482,585	15,835
0041	General administration	757,800	757,800	757,800	-
0051	Plant maintenance and operations	1,617,750	1,617,750	1,617,750	-
0052	Security and monitoring services	111,160	111,160	102,279	8,881
0053	Data processing services	295,005	295,005	256,161	38,844
0061	Community services	7,150	13,850	11,062	2,788
0071	Debt service principal	93,978	93,978	81,448	12,530
0072	Interest and fiscal charges	32,522	32,522	32,522	-
	Intergovernmental:				
0093	Shared service arrangements	540,400	537,743	492,676	45,067
0095	Juvenile justice programs	26,000	26,000	360	25,640
0099	Other intergovernmental charges	65,000	65,000	63,735	1,265
6030	Total Expenditures	<u>11,648,540</u>	<u>11,919,570</u>	<u>11,678,294</u>	<u>241,276</u>
1100	Excess (Deficiency) of Revenues				
1100	Over (Under) Expenditures	<u>(170,397)</u>	<u>(170,397)</u>	<u>129,290</u>	<u>299,687</u>
1200	Net Change in Fund Balance	<u>\$ (170,397)</u>	<u>\$ (170,397)</u>	<u>129,290</u>	<u>\$ 299,687</u>
0100	Beginning fund balance			4,693,997	
	Reconciliation of fund balance (GAAP basis)				
	Perspective differences:				
	Net effect of consolidated fund without an adopted budget			(959,620)	
3000	Ending Fund Balance			<u>\$ 3,863,667</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles.

***OTHER SUPPLEMENTARY
INFORMATION***

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2) - EXHIBIT H-1
August 31, 2014

Data Control Codes				
	205	206	211	240
	Head Start	ESEA Title X Part C	ESEA Title I Part A	National School Breakfast and Lunch Program
<u>Assets</u>				
1110	Cash and cash equivalents	\$ 8,452	\$ -	\$ 221,938
1240	Due from other governments	68,558	3,083	25,131
1000	Total Assets	\$ 77,010	\$ 3,083	\$ 247,069
<u>Liabilities</u>				
2110	Accounts payable	\$ 5,418	\$ -	\$ 59,837
2160	Accrued wages payable	-	-	-
2170	Due to other funds	70,115	3,083	23,178
2200	Accrued expenses	-	-	-
2300	Unearned revenue	1,477	-	-
2000	Total Liabilities	77,010	3,083	83,015
<u>Fund Balances</u>				
Restricted				
3450	Grant funds	-	-	164,054
3000	Total Fund Balances	-	-	164,054
4000	Total Liabilities and Fund Balances	\$ 77,010	\$ 3,083	\$ 247,069

244	255	263	294	313	314
Career and Technical Basic Grant	Title II Part A	Title III Part A	SSA Head Start	SSA IDEA - Part B Formula	SSA IDEA - Part B Preschool
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	11,095	1,214	-	109,596	3,887
<u>\$ -</u>	<u>\$ 11,095</u>	<u>\$ 1,214</u>	<u>\$ -</u>	<u>\$ 109,596</u>	<u>\$ 3,887</u>
\$ -	\$ 2,485	\$ 1,214	\$ -	\$ 36,596	\$ 697
-	2,264	-	-	17,993	849
-	5,798	-	-	52,181	2,017
-	548	-	-	2,826	324
-	-	-	-	-	-
<u>-</u>	<u>11,095</u>	<u>1,214</u>	<u>-</u>	<u>109,596</u>	<u>3,887</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ 11,095</u>	<u>\$ 1,214</u>	<u>\$ -</u>	<u>\$ 109,596</u>	<u>\$ 3,887</u>

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HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2) - EXHIBIT H-1

August 31, 2014

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Data Control Codes		Instructional Material	Total Nonmajor Governmental Funds
	<u>Assets</u>		
1110	Cash and cash equivalents	\$ -	\$ 230,390
1240	Due from other governments	-	288,343
1000	Total Assets	<u>\$ 28,141</u>	<u>\$ 546,874</u>
	<u>Liabilities</u>		
2110	Accounts payable	\$ -	\$ 122,617
2160	Accrued wages payable	-	32,183
2170	Due to other funds	28,141	221,197
2200	Accrued expenses	-	5,346
2300	Unearned revenue	-	1,477
2000	Total Liabilities	<u>28,141</u>	<u>382,820</u>
	<u>Fund Balances</u>		
	Restricted		
3450	Grant funds	-	164,054
3000	Total Fund Balances	<u>-</u>	<u>164,054</u>
4000	Total Liabilities and Fund Balances	<u>\$ 28,141</u>	<u>\$ 546,874</u>

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2) - EXHIBIT H-2
For the Year Ended August 31, 2014

Data Control Codes		205	206	211	240
		Head Start	ESEA Title X Part C	ESEA Title I Part A	National School Breakfast and Lunch Program
	Revenues				
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ 93,971
5800	State program revenues	-	-	-	4,904
5900	Federal program revenues	1,430,530	14,300	402,008	874,390
5020	Total Revenues	<u>1,430,530</u>	<u>14,300</u>	<u>402,008</u>	<u>973,265</u>
	Expenditures				
	Current:				
0011	Instruction	712,443	-	347,823	-
0012	Instruction resources				
0012	and media services	-	-	-	-
0013	Curriculum and instructional				
0013	staff development	68,524	-	51,366	-
0023	School leadership	140,481	-	-	-
0031	Guidance, counseling and				
0031	evaluation services	12,806	-	-	-
0032	Social work services	94,650	-	-	-
0033	Health services	54,467	-	-	-
0034	Student (pupil) transportation	169,761	1,000	-	-
0035	Food services	14,698	-	-	942,094
0036	Extracurricular activities	-	-	-	-
0041	General administration	-	-	-	-
0051	Plant maintenance and operations	155,766	-	-	-
0052	Security and monitoring services	1,645	-	-	-
0053	Data processing services	-	-	-	-
0061	Community services	5,289	13,300	2,819	-
0093	Payments to member districts	-	-	-	-
6030	Total Expenditures	<u>1,430,530</u>	<u>14,300</u>	<u>402,008</u>	<u>942,094</u>
1200	Net Change in Fund Balances	-	-	-	31,171
0100	Beginning fund balances	-	-	-	132,883
3000	Ending Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 164,054</u>

244	255	263	294	313	314
Career and Technical Basic Grant	Title II Part A	Title III Part A	SSA Head Start	SSA IDEA - Part B Formula	SSA IDEA - Part B Preschool
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
20,584	62,944	5,439	12,429	797,248	33,965
<u>20,584</u>	<u>62,944</u>	<u>5,439</u>	<u>12,429</u>	<u>797,248</u>	<u>33,965</u>
16,584	47,126	4,114	-	394,892	31,846
-	-	-	-	-	-
-	14,910	55	-	2,172	-
-	-	-	-	-	-
4,000	-	56	-	400,184	2,119
-	-	-	-	-	-
-	-	-	-	-	-
-	-	1,214	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	908	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	12,429	-	-
<u>20,584</u>	<u>62,944</u>	<u>5,439</u>	<u>12,429</u>	<u>797,248</u>	<u>33,965</u>
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2) - EXHIBIT H-2
For the Year Ended August 31, 2014

410

Data Control Codes		Instructional Material	Total Nonmajor Governmental Funds
	<u>Revenues</u>		
5700	Local and intermediate sources	\$ -	\$ 93,971
5800	State program revenues	122,933	127,837
5900	Federal program revenues	-	3,653,837
5020	Total Revenues	<u>122,933</u>	<u>3,875,645</u>
	<u>Expenditures</u>		
	Current:		
0011	Instruction	122,933	1,677,761
0012	Instruction resources		
0012	and media services	-	-
0013	Curriculum and instructional		
0013	staff development	-	137,027
0023	School leadership	-	140,481
0031	Guidance, counseling and		
0031	evaluation services	-	419,165
0032	Social work services	-	94,650
0033	Health services	-	54,467
0034	Student (pupil) transportation	-	171,975
0035	Food services	-	956,792
0036	Extracurricular activities	-	-
0041	General administration	-	908
0051	Plant maintenance and operations	-	155,766
0052	Security and monitoring services	-	1,645
0053	Data processing services	-	-
0061	Community services	-	21,408
0093	Payments to member districts	-	12,429
6030	Total Expenditures	<u>122,933</u>	<u>3,844,474</u>
1200	Net Change in Fund Balances	-	31,171
0100	Beginning fund balances	<u>-</u>	<u>132,883</u>
3000	Ending Fund Balances	<u>\$ -</u>	<u>\$ 164,054</u>

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE - EXHIBIT J-1
For the Year Ended August 31, 2014

Last Ten Years	1		2		3		10
	Tax Rates				Net Assessed/ Appraised Value For School Tax Purposes		Beginning Balance 8/31/13
	Maintenance	Debt Service					
2005 and prior	Various	Various			Various	\$	253,912
2006	\$ 1.5000	\$ 0.2680	\$		346,894,397		47,723
2007	\$ 1.5000	\$ 0.2270	\$		424,800,116		47,189
2008	\$ 1.3701	\$ 0.1450	\$		488,046,352		45,329
2009	\$ 1.0401	\$ 0.1750	\$		529,884,187		71,366
2010	\$ 1.0401	\$ 0.3700	\$		511,710,009		78,990
2011	\$ 1.0401	\$ 0.4000	\$		493,820,200		111,528
2012	\$ 1.0400	\$ 0.5000	\$		473,282,662		145,154
2013	\$ 1.0400	\$ 0.5000	\$		492,474,156		301,935
2014	\$ 1.0400	\$ 0.5000	\$		496,610,649		-
1000 Totals						\$	<u><u>1,103,126</u></u>

20	31	32	40	50
Current Year's Total Levy	Maintenance Total Collected	Debt Service Total Collected	Entire Year's Adjustments	Ending Balance 8/31/14
\$ -	\$ 6,708	\$ 1,108	\$ (36,872)	\$ 209,224
-	838	119	(916)	45,850
-	1,622	273	(1,522)	43,772
-	2,794	994	(1,109)	40,432
-	13,307	5,118	1,259	54,200
-	12,705	5,619	8,114	68,780
-	23,893	10,568	9,385	86,452
-	34,585	16,627	8,811	102,753
-	106,144	51,031	2,789	147,549
<u>7,647,804</u>	<u>4,977,532</u>	<u>2,393,044</u>	<u>-</u>	<u>277,228</u>
<u>\$ 7,647,804</u>	<u>\$ 5,180,128</u>	<u>\$ 2,484,501</u>	<u>\$ (10,061)</u>	<u>\$ 1,076,240</u>

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION SCHEDULE (UNAUDITED)
GENERAL FUND - EXHIBIT J-2
August 31, 2014

1. Total general fund balance at year end (Exhibit C-1, object 3000 for the general fund only)	\$ 3,863,667
2. Total non-spendable fund balance at year end (Exhibit C-1, objects 341x-344x for the general fund only)	-
3. Total restricted fund balance (Exhibit C-1, objects 345x-349x for the general fund only)	127,290
4. Total committed fund balance (Exhibit C-1, objects 351x-354x for the general fund only)	-
5. Total assigned fund balance (Exhibit C-1, objects 355x-359x for the general fund only)	-
6. Estimated amount needed to cover fall cash flow deficits in general fund (net of borrowed funds and funds representing deferred revenues)	2,022,447
7. Estimate of two months' average cash disbursements during the fiscal year	1,224,311
8. Estimate of delayed payments from state sources (58XX) including August payment delays	-
9. Estimate of underpayments from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	-
10. Estimate of delayed payments from federal sources (59XX)	-
11. 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)	-
12. General fund optimum fund balance and cash flow (2+3+4+5+6+7+8+9+10+11)	3,374,048
13. Excess or (deficit) unassigned general fund balance (1-12)	\$ 489,619

The excess general fund fund balance will be used to meet future construction commitments.

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE

CHILD NUTRITION FUND - EXHIBIT J-3

For the Year Ended August 31, 2014

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
		Original	Final		
	<u>Revenues</u>				
5700	Local and intermediate sources	\$ 92,130	\$ 92,130	\$ 93,971	\$ 1,841
5800	State program revenues	7,000	7,000	4,904	(2,096)
5900	Federal program revenues	745,970	874,390	874,390	-
5020	Total Revenues	<u>845,100</u>	<u>973,520</u>	<u>973,265</u>	<u>(255)</u>
	<u>Expenditures</u>				
0035	Food services	845,100	973,520	942,094	31,426
6030	Total Expenditures	<u>845,100</u>	<u>973,520</u>	<u>942,094</u>	<u>31,426</u>
1200	Net Change in Fund Balance	-	-	31,171	31,171
0100	Beginning fund balance	132,883	132,883	132,883	-
3000	Ending Fund Balance	<u>\$ 132,883</u>	<u>\$ 132,883</u>	<u>\$ 164,054</u>	<u>\$ 31,171</u>

Notes to budgetary comparison schedule:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles.

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND - EXHIBIT J-4

For the Year Ended August 31, 2014

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
		Original	Final		
	<u>Revenues</u>				
5700	Local and intermediate sources	\$ 2,433,500	\$ 2,475,424	\$ 2,534,382	\$ 58,958
5900	Federal program revenues	290,000	284,489	264,287	(20,202)
5020	Total Revenues	<u>2,723,500</u>	<u>2,759,913</u>	<u>2,798,669</u>	<u>38,756</u>
	<u>Expenditures</u>				
0071	Principal	1,357,820	1,449,790	1,422,066	27,724
0072	Interest and fiscal charges	1,365,680	1,310,123	1,310,123	-
6030	Total Expenditures	<u>2,723,500</u>	<u>2,759,913</u>	<u>2,732,189</u>	<u>27,724</u>
1200	Net Change in Fund Balance	-	-	66,480	66,480
0100	Beginning fund balance	1,212,810	1,212,810	1,212,810	-
3000	Ending Fund Balance	<u>\$ 1,212,810</u>	<u>\$ 1,212,810</u>	<u>\$ 1,279,290</u>	<u>\$ 66,480</u>

FEDERAL AWARDS SECTION



**INDEPENDENT AUDITORS' 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**

January 22, 2015

To the Board of Trustees of the
Hitchcock Independent School District:

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hitchcock Independent School District (the "District"), as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated January 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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Governmental
Audit Quality Center

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

 BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

January 22, 2015

To the Board of Trustees of the
Hitchcock Independent School District:

Report on Compliance for Each Major Federal Program

We have audited the Hitchcock Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2014. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

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Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2014.

Report on Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirements of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

 BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended August 31, 2014

A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

Finding 2013-1 – Closing Process

Condition: It did not appear that the District was reconciling various general ledger accounts to related support during the year end closing process for special revenue funds.

Effect of the Condition: Lack of proper closing procedures could lead to various general ledger accounts being misstated for the special revenue funds.

Recommendation: The District should develop a formal closing process, including reviewing supporting documentation, to determine the accuracy of general ledger accounts for special revenue funds.

Questioned Costs: None

Criteria: According to Texas Education Agency's Financial Accountability System Resource Guide, procedures and policies should be in place to ensure that accounts are closed, adjusted, and reviewed on a timely basis.

Solution of the Condition: A formal closing policy was established over closing general ledger accounts for the special revenue funds. The District's finance director is now in charge of closing all general ledger accounts for the special revenue funds.

Status: Resolved.

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HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2014

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unmodified opinion on the financial statements of Hitchcock Independent School District (the "District").
2. Significant deficiencies in internal control were not disclosed by the audit of the basic financial statements.
3. No instances of noncompliance material to the financial statements were disclosed during the audit.
4. Significant deficiencies in internal control over major federal award programs were not disclosed by the audit.
5. The auditors' report on compliance for the major federal award programs expresses an unmodified opinion.
6. No audit findings relative to the major federal award programs for the District are reported in Part C of this schedule.
7. The programs included as major programs are:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.600	Head Start
10.553 and 10.555	Child Nutrition

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The District did not qualify as a low-risk auditee.

B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

None noted

C. FINDINGS – FEDERAL AWARDS

None noted

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT K-1
For the Year Ended August 31, 2014

(1)	(2)	(2A)	(3)
Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education			
ESEA Title I, Part A*	84.010	13610101084908	\$ 424,456
IDEA B, Formula*	84.027	136600010849086600	836,198
Carl Perkins, Basic Grant	84.048	13420006084908	21,504
IDEA B, Preschool*	84.173	136610010849086610	35,607
Title X, Part C	84.196	084908	14,300
Title III, English Language	84.365	13671001170904	5,439
Title II, Part A	84.367	13694501084908	65,901
TOTAL U.S. DEPARTMENT OF EDUCATION			1,403,405
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education			
School Breakfast Programs*	10.553	71401001	265,487
National School Lunch*	10.555	71301001	560,851
USDA Commodities	10.565	084908	55,117
TOTAL U.S. DEPARTMENT OF AGRICULTURE			881,455
U.S. DEPARTMENT OF HEALTH			
Head Start*	93.600	084908	1,442,060
TOTAL U.S. DEPARTMENT OF HEALTH			1,442,060
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 3,726,920
Federal revenue per SEFA			\$ 3,726,920
SHARS			173,182
E-RATE			497,525
Reimbursement for debt service			264,287
C-2 Federal Revenue			\$ 4,661,914

* Indicates clustered program under OMB Circular A-133 Compliance Supplement
The accompanying notes are an integral part of this schedule.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2014

NOTE 1: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Hitchcock Independent School District, and is presented on the 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 basic financial statements.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO
SELECTED SCHOOL FIRST INDICATORS - EXHIBIT L-1
For the Year Ended August 31, 2014

<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 unmodified 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?	\$ <u> -</u>



Management Letter

January 22, 2015

To the Board of Trustees of
Hitchcock Independent School District:

The American Institute of Certified Public Accountants Statement on Auditing Standards No. 115, *Communicating Internal Control Related Matters Identified in an Audit* (SAS 115), provides guidance to auditors on communicating internal control matters to management and the governing body, board of directors, or equivalent body.

It is important to note when reviewing findings reported within this letter that classification of the findings is based on the definitions required by SAS 115 as further discussed below. Please note that these classifications are based on the potential impact to the financial statements, not necessarily the likelihood of actual loss to the District. Accordingly, the District's assessment of the "significance" or ranking of severity will likely be substantially different based on a number of factors including, but not limited to, its assessment of risk and the cost benefit of making the change.

Our report is as follows:

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hitchcock Independent School District (the "District") as of and for the year ended August 31, 2014, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be other matters.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

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A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our findings and additional comments are as follows:

Other Matters:

2014-001. GASB STATEMENT NO. 68, *ACCOUNTING AND FINANCIAL REPORTING FOR PENSIONS*

Background

In 2015, all local governments will begin to report their pension liability on their financial statements. This might result in some governments reporting a deficit in net position. In recent years, governments' pension liability has become front page news. Pension liability could potentially move to the arena of public discussions and, accordingly, elected and appointed officials need to be prepared to be familiar with key talking points, as noted in the recommendations below.

In June 2012, the Governmental Accounting Standards Board ("GASB") issued Statement No. 68 ("GASB 68"), *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*, which replaces the requirements of GASB Statement No. 27, as well as the requirements of GASB Statement No. 50, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements. GASB 68 will be effective for fiscal years beginning after June 15, 2014. The requirements of GASB Statement Nos. 27 and 50 will remain applicable for pensions that are not covered by the scope of GASB 68.

GASB 68 establishes new standards of accounting and financial reporting for defined benefit and defined contribution pensions provided to the employees of state and local governmental employers. GASB 68 establishes new standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures, in addition to new disclosure and Required Supplementary Information reporting requirements. Implementation of GASB 68 will represent a significant change in the accounting and reporting of pension expense and the related liability. For fiscal year 2015, the District will be required to recognize its long-term obligation for pension benefits as a liability in its government-wide statements.

Key changes to financial reporting and disclosures required by GASB 68 are as follows:

- A net pension liability (unfunded accrued liability) will be recognized on the Statement of Net Position.
- This liability amount being reported will likely be higher than previously disclosed, as the following changes will impact the calculation:
 - Changes in the allowable amortization periods will result in larger expenses than previously reported.
 - Previous statements provided up to six allowable actuarial cost methods. GASB 68 will require the use of only the entry age normal cost method.

- Previous standards allowed various asset smoothing methods to determine the values of plan assets. GASB 68 will require plan assets to be reported at fair market value.
- New terminology (net pension liability and total pension liability) will be used.
- Pension expenses will become more variable.
- More extensive disclosures and Required Supplementary Information will be included.
- Key changes to the entities' operations as a result of GASB 68 are as follows:
 - Management will now be responsible for documenting and taking responsibility for controls related to employee data being transmitted to its pension plan administrator.
 - The District's independent auditor will now be required to review and test controls related to employee data being transmitted to the pension plan administrator.

Recommendation

Key talking points that management and elected officials should consider are:

1. The fundamentals of the government's finances have not changed.
2. This is an accounting rule change only.
3. Pension liability is a long-term liability paid off in the future.
4. The District is a member of the Texas Retirement System (TRS) and has made the necessary annual contributions as calculated by TRS' actuary.
5. Fund balance remains the best measure of the financial health of a government.

Fund balance remains the best measure of the financial health of a government.

As a result of this new accounting statement, it is important that management has reviewed and documented its internal controls over pension benefits. Internal controls should include various activities over pension benefits, such as plan design and modifications, employee eligibility, employee and employer contributions, reporting, and application for plan benefits. In addition, it is the employer's responsibility for ensuring the reasonableness of its pension liability. Factors to be considered in determining reasonableness include reviewing evidence used in determining the total pension liability such as assumptions made and completeness of the census data provided to the actuary. Possible procedures to ensure accuracy of the census data could include tracing active employees from payroll records to census data and checking key information, tracing current year terminations per payroll records to census data to verify status and date of termination, and tracing key data from the census file back to originating employment records.

TRS will be providing the District with the information necessary to report its total pension liability and related disclosures. Preliminary estimates of Districts' proportionate share of the total pension liability are available at http://www.trs.state.tx.us/reporting/documents/gasb_68_fy13_allocation.pdf. TRS has also posted additional information related to the implementation of GASB 68 on their website at http://www.trs.state.tx.us/global.jsp?page_id=/reporting/gasb67_68. Preliminary estimates of districts'

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Additional resources can be found on our website, www.texasauditors.com, as well as <http://www.gasb.org/jsp/GASB/Page/GASBSectionPage&cid=1176163527940> where GASB has provided an implementation toolkit for governments. Additionally, we will send out client alerts as additional information becomes available on this topic.

This communication is intended solely for the information and use of management, the Board of Trustees, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

We would like to thank the Board of Trustees and the District's management for their cooperation during the course of our audit. Please feel free to contact us at your convenience to discuss this report or any other concerns that you may have.

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