

*ANNUAL FINANCIAL REPORT*

of the

**HITCHCOCK  
INDEPENDENT SCHOOL DISTRICT**

For the Year Ended  
August 31, 2011

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# HITCHCOCK

## INDEPENDENT SCHOOL DISTRICT

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## ***INTRODUCTORY SECTION***

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**CERTIFICATE OF BOARD**

<b>Hitchcock</b>	<b>Galveston</b>	<b>084908</b>
<b>Independent School District</b>	<b>County</b>	<b>Co. Dist. Number</b>
_____ Name of School District	_____ County	_____ Co. Dist. Number

We, the undersigned, clarify 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, 2011, at a meeting of the Board of Trustees of such school district on the \_\_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
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:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hitchcock Independent School District (the "District") as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2011, and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2012 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Generally accepted accounting principles in the United States of America require that the Management's Discussion and Analysis and budgetary comparison information 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements as a whole. The introductory section and combining statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the 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 financial statements. The combining fund statements and schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the 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.

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
January 17, 2012

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

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# HITCHCOCK INDEPENDENT SCHOOL DISTRICT

## *MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)*

For the Year Ended August 31, 2011

This discussion and analysis of Hitchcock Independent School District's (the "District") financial performance provides an overview of the District's financial activities for the year ended August 31, 2011. It should be read in conjunction with the District's financial statements.

### FINANCIAL HIGHLIGHTS

- The District's total combined net assets at year end were \$10,063,362.
- For the fiscal year ended August 31, 2011, the District's general fund reported a total fund balance of \$#VALUE!.
- 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 \$15,037,008.

### 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 Supplemental 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.

### GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

# HITCHCOCK

## INDEPENDENT SCHOOL DISTRICT

### *MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued*

For the Year Ended August 31, 2011

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

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

The government-wide financial statements of the District include the *governmental activities*. 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.

### **FUND FINANCIAL STATEMENTS**

The fund financial statements provide more detail 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.

The District has the following kinds of funds:

- *Governmental Funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.
- *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 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 assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.



# HITCHCOCK

## INDEPENDENT SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

For the Year Ended August 31, 2011

#### FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net assets were \$10,063,362 at year end. *Table 1* focuses on the net assets while *Table 2* shows the revenues and expenses that changed the net asset balance during the year. The District reported an increase of \$629,981 in net assets from the prior year. Decreased expenditures in instruction contributed to the increase in combined net assets.

**Table 1**  
**Net Assets**

Description	Governmental Activities		Total Change
	2011	2010	2011-2010
Current assets	\$ 17,420,395	\$ 5,702,456	\$ 11,717,939
Capital assets	31,169,898	30,662,504	507,394
<b>Total Assets</b>	<b>48,590,293</b>	<b>36,364,960</b>	<b>12,225,333</b>
Current liabilities	1,121,589	4,075,361	(2,953,772)
Long-term liabilities	37,405,342	25,856,218	11,549,124
<b>Total Liabilities</b>	<b>38,526,931</b>	<b>29,931,579</b>	<b>8,595,352</b>
<b>Net Assets:</b>			
Invested in capital assets, net of related debt	5,790,764	4,806,286	984,478
Restricted	1,161,699	1,104,150	57,549
Unrestricted	3,110,899	3,522,945	(412,046)
<b>Total Net Assets</b>	<b>\$ 10,063,362</b>	<b>\$ 9,433,381</b>	<b>\$ 629,981</b>

# HITCHCOCK

## INDEPENDENT SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS, *Continued*

For the Year Ended August 31, 2011

**Table 2**  
**Changes in Net Assets**

	Governmental Activities		Total Change 2011-2010
	2011	2010	
<b>Revenues</b>			
Program revenues:			
Charges for services	\$ 101,152	\$ 112,033	\$ (10,881)
Operating grants and contributions	5,246,135	5,933,565	(687,430)
General revenues:			
Property taxes	7,210,947	7,030,965	179,982
State aid - formula grants	4,743,970	5,131,728	(387,758)
Grants and contributions not restricted	2,050,045	1,307,383	742,662
Investment earnings	35,282	43,287	(8,005)
Miscellaneous	545,894	588,836	(42,942)
<b>Total Revenue</b>	<u>19,933,425</u>	<u>20,147,797</u>	<u>(214,372)</u>
<b>Expenses</b>			
Instruction	7,913,007	11,299,009	(3,386,002)
Instructional resources and media services	129,998	8,382	121,616
Curriculum and staff development	543,883	538,999	4,884
Instructional leadership	366,178	583,448	(217,270)
School leadership	1,064,417	787,036	277,381
Guidance, counseling and evaluation services	915,060	704,916	210,144
Social work services	91,936	84,797	7,139
Social work/health services	203,558	190,764	12,794
Student (pupil) transportation	1,031,294	906,689	124,605
Food services	882,713	981,750	(99,037)
Co-curricular/extracurricular activities	465,846	536,573	(70,727)
General administration	779,044	812,814	(33,770)
Plant maintenance and operations	1,670,576	1,244,472	426,104
Security and monitoring	95,714	145,036	(49,322)
Data processing services	254,191	270,244	(16,053)
Community services	135,369	167,790	(32,421)
Interest on long-term debt	1,360,625	1,171,477	189,148
Payments related to shared service arrangements	1,333,607	1,557,064	(223,457)
Payments to juvenile justice programs	13,222	23,188	(9,966)
Other intergovernmental charges	53,206	59,937	(6,731)
<b>Total Expenses</b>	<u>19,303,444</u>	<u>22,074,385</u>	<u>(2,770,941)</u>
<b>Change in Net Assets</b>	<u>629,981</u>	<u>(1,926,588)</u>	<u>2,556,569</u>
Beginning Net Assets	9,433,381	11,359,969	(1,926,588)
<b>Ending Net Assets</b>	<u>\$ 10,063,362</u>	<u>\$ 9,433,381</u>	<u>\$ 629,981</u>

**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued*  
For the Year Ended August 31, 2011

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

At the close of the fiscal year ended August 31, 2011, the District's fund balance in the general fund increased due to an increase in state foundation revenue.

The debt service fund increased due to property tax revenue exceeding debt service payments.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The general fund's actual revenues exceeded budgeted revenues by \$342,093 due to an increase in foundation revenue and the budgeted expenditures exceeded actual expenditures by \$1,375,807 due to a decrease in expenditures in instruction.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**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. 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 \$41,233,246 invested in capital assets (net of depreciation) such as land, buildings, and District equipment.

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 \$37,154,332 in general obligation bonds, notes, and other payables outstanding versus \$25,694,587 last year.

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

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The District's budgeted expenditures for the 2011-2012 school year total \$11,341,460 and the District's Board of Trustees adopted an M & O tax rate of \$1.04, and an I & S rate of \$.48 for a combined rate of \$1.52.

**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 8117 Highway 6, Hitchcock, Texas, 77563.

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## ***BASIC FINANCIAL STATEMENTS***

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# HITCHCOCK

## INDEPENDENT SCHOOL DISTRICT

### STATEMENT OF NET ASSETS - EXHIBIT A-1

August 31, 2011

Data Control Codes		1
		Governmental Activities
	<u>Assets</u>	
1110	Cash and cash equivalents	\$ 13,182,067
1220	Property taxes - delinquent	1,360,633
1230	Allowance for uncollectible taxes	(412,875)
1240	Due from other governments	2,700,954
1290	Other receivables	19,144
1300	Inventories, at cost	64,681
1410	Prepaid items	291,244
1,420	Deferred charges	214,547
		<u>17,420,395</u>
	Capital assets:	
1510	Land	1,674,919
1520	Buildings, net	28,661,611
1530	Furniture and equipment, net	292,745
1540	Vehicles, net	540,623
		<u>31,169,898</u>
1000	<b>Total Assets</b>	<u>48,590,293</u>
	<u>Liabilities</u>	
2110	Accounts payable	257,997
2140	Interest payable	48,170
2160	Accrued wages payable	310,410
2180	Due to other governments	502,420
2200	Accrued expenses	2,592
		<u>1,121,589</u>
	Noncurrent liabilities:	
2501	Long-term liabilities due within one year	1,400,437
2502	Long-term liabilities due in more than one year	36,004,905
		<u>37,405,342</u>
2000	<b>Total Liabilities</b>	<u>38,526,931</u>
	<u>Net Assets</u>	
3200	Invested in capital assets, net of related debt	5,790,764
	Restricted for:	
3850	Debt service	1,150,287
3890	Other purposes	11,412
3900	Unrestricted	3,110,899
3000	<b>Total Net Assets</b>	<u>\$ 10,063,362</u>

See Notes to Financial Statements.

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# HITCHCOCK

## INDEPENDENT SCHOOL DISTRICT

### STATEMENT OF ACTIVITIES - EXHIBIT B-1

For the Year Ended August 31, 2011

Data Control Codes	Functions/Programs	1  Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
			3  Charges for Services	4  Operating Grants and Contributions	6  Primary Gov. Governmental Activities
	<b>Primary Government</b>				
	<b>Governmental Activities</b>				
0011	Instruction	\$ 7,913,007	\$ -	\$ 2,132,446	\$ (5,780,561)
0012	Instructional resources				
0012	and media services	129,998	-	-	(129,998)
0013	Curriculum/instructional				
0013	staff development	543,883	-	271,355	(272,528)
0021	Instructional leadership	366,178	-	2,980	(363,198)
0023	School leadership	1,064,417	-	170,876	(893,541)
0031	Guidance, counseling				
0031	and evaluation services	915,060	-	422,047	(493,013)
0032	Social work services	91,936	-	91,936	-
0033	Health services	203,558	-	55,709	(147,849)
0034	Student (pupil) transportation	1,031,294	-	368,480	(662,814)
0035	Food services	882,713	101,152	742,781	(38,780)
0036	Extracurricular activities	465,846	-	-	(465,846)
0041	General administration	779,044	-	5,093	(773,951)
0051	Plant maintenance and operations	1,670,576	-	209,464	(1,461,112)
0052	Security and monitoring services	95,714	-	2,605	(93,109)
0053	Data processing services	254,191	-	-	(254,191)
0061	Community services	135,369	-	50,704	(84,665)
0072	Interest - long term debt	1,360,625	-	-	(1,360,625)
0093	Payments to fiscal agent/member				
0093	districts of SSA	1,333,607	-	719,659	(613,948)
0095	Payments to juvenile justice	13,222	-	-	(13,222)
0099	Other intergovernment charges	53,206	-	-	(53,206)
	<b>Total Governmental Activities</b>	<u>\$ 19,303,444</u>	<u>\$ 101,152</u>	<u>\$ 5,246,135</u>	<u>(13,956,157)</u>
TP	<b>Total Primary Government</b>	<u>\$ 19,303,444</u>	<u>\$ 101,152</u>	<u>\$ 5,246,135</u>	<u>(13,956,157)</u>
	<b>General Revenues</b>				
MT	Property taxes, levied for general purposes				5,026,927
DT	Property taxes, levied for debt service				2,184,020
SF	State aid - formula grants				4,743,970
GC	Grants and contributions not restricted				2,050,045
IE	Investment earnings				35,282
MI	Miscellaneous local and intermediate revenue				545,894
TR	<b>Total General Revenues</b>				<u>14,586,138</u>
CN	<b>Change in Net Assets</b>				<u>629,981</u>
NB	Beginning Net Assets				<u>9,433,381</u>
NE	<b>Ending Net Assets</b>				<u>\$ 10,063,362</u>

See Notes to Financial Statements.

# HITCHCOCK

## INDEPENDENT SCHOOL DISTRICT

### BALANCE SHEET

#### GOVERNMENTAL FUNDS - EXHIBIT C-1

August 31, 2011

Data Control Codes		10	Special Education Cooperative	50	60
		General		Debt Service	Capital Projects
	<b><u>Assets</u></b>				
1110	Cash and cash equivalents	\$ 563,830	86,443	\$ 1,292,351	\$ 11,204,946
1220	Property taxes - delinquent	1,046,343	-	314,290	-
1230	Allowance for uncollectible taxes	(349,987)	-	(62,888)	-
1240	Due from other governments	1,794,993	440,934	-	-
1260	Due from other funds	463,856	267,934	-	-
1290	Other receivables	19,144	-	-	-
1300	Inventories, at cost	64,681	-	-	-
1410	Prepaid items	291,244	-	-	-
1000	<b>Total Assets</b>	<u>\$ 3,894,104</u>	<u>\$ 795,311</u>	<u>\$ 1,543,753</u>	<u>\$ 11,204,946</u>
	<b><u>Liabilities</u></b>				
2110	Accounts payable	\$ 109,790	3,069	\$ -	\$ -
2160	Accrued wages payable	283,511	7,684	-	-
2170	Due to other funds	127,836	281,969	-	-
2180	Due to other governments	-	502,420	-	-
2200	Accrued expenses	649	169	-	-
2300	Deferred revenue	701,955	-	393,466	-
2000	<b>Total Liabilities</b>	<u>1,223,741</u>	<u>795,311</u>	<u>393,466</u>	<u>-</u>
	<b><u>Fund Balances</u></b>				
	Restricted for:				
3410	Investments in inventories	64,681	-	-	-
3420	Debt service	-	-	1,150,287	-
3430	Prepaid items	291,244	-	-	-
3490	Other purposes	-	-	-	-
	Assigned, reported in:				
3510	Construction	-	-	-	11,204,946
	Unreserved and undesignated, reported in:				
3600	General fund	2,314,438	-	-	-
3610	Special revenue funds	-	-	-	-
3000	<b>Total Fund Balances</b>	<u>2,670,363</u>	<u>-</u>	<u>1,150,287</u>	<u>11,204,946</u>
4000	<b>Total Liabilities</b>				
4000	<b>and Fund Balances</b>	<u>\$ 3,894,104</u>	<u>\$ 795,311</u>	<u>\$ 1,543,753</u>	<u>\$ 11,204,946</u>

See Notes to Financial Statements.

<b>Nonmajor Governmental Funds</b>	<b>98 Total Governmental Funds</b>
\$ 34,497	\$ 13,182,067
-	1,360,633
-	(412,875)
465,027	2,700,954
-	731,790
-	19,144
-	64,681
-	291,244
<u>\$ 499,524</u>	<u>\$ 17,937,638</u>

\$ 145,138	\$ 257,997
19,215	310,410
321,985	731,790
-	502,420
1,774	2,592
-	1,095,421
<u>488,112</u>	<u>2,900,630</u>

-	64,681
-	1,150,287
-	291,244
-	-
-	11,204,946
-	2,314,438
11,412	11,412
<u>11,412</u>	<u>15,037,008</u>
<u>\$ 499,524</u>	<u>\$ 17,937,638</u>

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**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET**  
**TO THE STATEMENT OF NET ASSETS - EXHIBIT C-1R**  
August 31, 2011

Total fund balances for governmental funds		\$	15,037,008
Amounts reported for governmental activities in the Statement of Net Assets 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>29,494,979</u>		
			31,169,898
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			
			1,095,421
Some liabilities, including bonds payable, are not reported as liabilities in the governmental funds.			
Deferred charges	214,547		
Accrued interest	(48,170)		
Non-current liabilities due in one year	(1,400,437)		
Non-current liabilities due in more than one year	<u>(36,004,905)</u>		
			<u>(37,238,965)</u>
<b>Net Assets of Governmental Activities</b>		<b>\$</b>	<b><u>10,063,362</u></b>

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, 2011

Data Control Codes		General	Special Education Cooperative	Debt Service	Capital Projects
	<b><u>Revenues</u></b>				
5700	Local, intermediate, and out-of-state	\$ 5,385,981	\$ 6,242	\$ 2,246,303	\$ 9,668
5800	State program revenues	5,218,599	390,812	-	-
5900	Federal program revenues	863,136	203,624	107,933	-
5020	<b>Total Revenues</b>	<u>11,467,716</u>	<u>600,678</u>	<u>2,354,236</u>	<u>9,668</u>
	<b><u>Expenditures</u></b>				
0011	Instruction	5,233,066	153,782	-	-
0012	Instruction resources and media services	129,998	-	-	-
0013	Curriculum/instructional staff development	269,603	2,925	-	-
0021	Instructional leadership	116,780	246,418	-	-
0023	School leadership	893,541	-	-	-
0031	Guidance, counseling, evaluation services	374,778	118,235	-	-
0032	Social work services	-	-	-	-
0033	Health services	147,849	-	-	-
0034	Student (pupil) transportation	447,616	-	-	-
0035	Food services	19,706	-	-	-
0036	Extracurricular activities	409,558	-	-	-
0041	General administration	764,291	4,788	-	-
0051	Plant maintenance and operations	1,333,714	-	-	-
0052	Security and monitoring services	93,109	-	-	-
0053	Data processing services	254,191	-	-	-
0061	Community services	83,421	-	-	-
	<b>Debt service:</b>				
0071	Principal	81,458	-	985,005	-
0072	Interest and fiscal charges	1,378	-	1,269,868	-
0073	Bond issuance costs	-	-	-	214,547
0081	<b>Capital outlay</b>	-	-	-	1,306,718
	<b>Intergovernmental:</b>				
0093	Payments to member districts of SSA	539,418	74,530	-	-
0095	Payments to juvenile justice programs	13,222	-	-	-
0099	Other intergovernmental charges	53,206	-	-	-
6030	<b>Total Expenditures</b>	<u>11,259,903</u>	<u>600,678</u>	<u>2,254,873</u>	<u>1,521,265</u>
1100	<b>Excess (Deficiency) of Revenues</b>				
1100	<b>Over (Under) Expenditures</b>	<u>207,813</u>	<u>-</u>	<u>99,363</u>	<u>(1,511,597)</u>
	<b><u>Other Financing Sources (Uses)</u></b>				
7911	Bond proceeds	-	-	-	12,026,208
7914	Loan proceeds	-	-	-	500,000
7915	Transfers in	51,102	-	-	-
8911	Transfers (out)	(9,774)	-	-	-
7080	<b>Total Other Financing Sources (Uses)</b>	<u>41,328</u>	<u>-</u>	<u>-</u>	<u>12,526,208</u>
1200	<b>Net Change in Fund Balances</b>	249,141	-	99,363	11,014,611
0100	Beginning Fund Balances	2,421,222	-	1,050,924	190,335
3000	<b>Ending Fund Balances</b>	<u>\$ 2,670,363</u>	<u>\$ -</u>	<u>\$ 1,150,287</u>	<u>\$ 11,204,946</u>

See Notes to Financial Statements.

<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 102,652	\$ 7,750,846
183,519	5,792,930
5,072,527	6,247,220
<u>5,358,698</u>	<u>19,790,996</u>
2,150,909	7,537,757
-	129,998
271,355	543,883
2,980	366,178
170,876	1,064,417
422,047	915,060
91,936	91,936
55,709	203,558
368,480	816,096
843,933	863,639
-	409,558
5,093	774,172
209,464	1,543,178
2,605	95,714
-	254,191
50,704	134,125
-	1,066,463
-	1,271,246
-	214,547
-	1,306,718
719,659	1,333,607
-	13,222
-	53,206
<u>5,365,750</u>	<u>21,002,469</u>
<u>(7,052)</u>	<u>(1,211,473)</u>
-	12,026,208
-	500,000
9,774	60,876
(51,102)	(60,876)
<u>(41,328)</u>	<u>12,526,208</u>
(48,380)	11,314,735
59,792	3,722,273
<u>\$ 11,412</u>	<u>\$ 15,037,008</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, 2011

Net changes in fund balances - total governmental funds	\$ 11,314,735
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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	(1,036,602)
Capital outlay	1,543,996

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	142,429
--	---------

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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when it is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.

Principal repayments	1,066,463
Accreted interest	(95,333)
Amortization of other items	220,501
Debt issued	(12,526,208)

<b>Change in Net Assets of Governmental Activities</b>	<b>\$ 629,981</b>
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See Notes to Financial Statements.

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**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
*STATEMENT OF FIDUCIARY NET ASSETS*  
*FIDUCIARY FUNDS - EXHIBIT E-1*  
August 31, 2011

<u>Data Control Codes</u>			<u>Agency</u>
	<u>Assets</u>		
1110	Cash and cash equivalents		\$ 44,824
1000		<b>Total Assets</b>	<u>\$ 44,824</u>
	<u>Liabilities</u>		
	Current liabilities:		
2190	Due to student groups		\$ 44,824
2000		<b>Total Liabilities</b>	<u>\$ 44,824</u>

See Notes to Financial Statements.

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# HITCHCOCK INDEPENDENT SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2011

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

Hitchcock Independent School District (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (“GASB”) and it complies with the requirements of the appropriate version of Texas Education Agency’s (“TEA”) *Financial Accountability System Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

The District is an independent political subdivision of the State of Texas governed by the Board of Trustees, a seven member group, elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations and is considered a primary government. As required by generally accepted accounting principles, these financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the District’s financial reporting entity. No other entities have been included in the District’s reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity, which is in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as revised by GASB Statement No. 39.

#### B. Financial Statement Presentation

These financial statements are prepared in accordance with GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*. Certain requirements of the statement include the following:

- A Management’s Discussion and Analysis (MD&A) section providing an analysis of the District’s overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the District’s activities.
- A change in the fund financial statements to focus on the major funds.

GASB Statement No. 34 established standards for external financial reporting for all state and local governmental entities which includes a Statement of Net Assets and a Statement of Activities. It requires the classification of net assets into three components – invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- **Invested in capital assets, net of related debt** – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation, and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

# HITCHCOCK INDEPENDENT SCHOOL DISTRICT

*NOTES TO FINANCIAL STATEMENTS, Continued*  
For the Year Ended August 31, 2011

- **Restricted** – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- **Unrestricted** – This component of net assets consists of net assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

## **C. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information about the District as a whole. These statements include all activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the District’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include charges paid by the recipients of goods or services offered by the programs and grants that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, such as taxes and investment earnings, are presented as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. In the fund financial statements, the accounts of the District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Following is a description of the various funds:

### **Governmental Funds**

Governmental funds are those funds through which most governmental functions are typically financed.

#### **General Fund**

The general fund is used to account for and report all financial resources not accounted for and reported 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.

**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
For the Year Ended August 31, 2011

**Special Revenue Funds**

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

**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:

**Private-Purpose Trust Funds**

Private-purpose trust funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types.

**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.

**D. Measurement Focus and Basis of Accounting**

The government-wide Statement of Net Assets and Statement of Activities are accounted for on a flow of economic resources measurement focus – accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The District utilizes the modified accrual basis of accounting in the governmental fund type. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
For the Year Ended August 31, 2011

Property taxes and interest associated with the current period are all considered to be susceptible to accrual and so have been recognized as revenues of the current period. Other receipts and other taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on long-term debt, which is recognized when due.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

**E. Assets, Liabilities, and Net Assets or Fund Equity**

**1. Deposits and Investments**

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

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

**2. Receivables**

Transactions between funds that are representative of lending/borrowing arrangements outstanding at the end of the year are referred to as either "interfund receivables/payables" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds" in the fund financial statements.

Advances between funds are offset by a nonspendable fund balance account in an applicable governmental fund to indicate that they are not available for appropriation and are not expendable, available financial resources.

All trade receivables are shown net of an allowance for uncollectibles.



# HITCHCOCK

## INDEPENDENT SCHOOL DISTRICT

*NOTES TO FINANCIAL STATEMENTS, Continued*  
For the Year Ended August 31, 2011

### 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.

### **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) 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.

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

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

### **5. 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 Assets. The long-term debt consists primarily of bonds payable.

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. In the governmental fund

**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
For the Year Ended August 31, 2011

types, 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.

**6. Fund Balances – Governmental Funds**

In the fund financial statements, fund balances in governmental funds are classified as follows:

**Nonspendable** – Represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact (such as principal of a permanent fund).

**Restricted** – Represents amounts that are constrained by external parties, constitutional provisions, or enabling legislation.

**Committed** – Represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees (the "Board"). Committed amounts cannot be used for any other purpose unless the Board removes those constraints by taking the same type of formal action. Commitments are approved through the adoption and amendment of the District's budget or a formal resolution stating the commitment. The commitment must be made prior to year end.

**Assigned** – Represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board or by an official or body to which the Board delegates the authority. The Board has retained this authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself. Assignments can be made at any time.

**Unassigned** – Represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed, or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed, then assigned funds, and finally unassigned funds.

# **HITCHCOCK**

## **INDEPENDENT SCHOOL DISTRICT**

*NOTES TO FINANCIAL STATEMENTS, Continued*  
For the Year Ended August 31, 2011

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

### **8. 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 insure accuracy in building a statewide database for policy development and funding plans.

## **II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). 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 cover 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.

## **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.

# HITCHCOCK

## INDEPENDENT SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS, *Continued*

#### For the Year Ended August 31, 2011

At August 31, 2011, the District's investments are rated as to credit quality as follows:

<u>Investment</u>	<u>Credit Rating</u>	<u>Rating Agency</u>
Lone Star	AAA	Standard & Poor's
TexSTAR	AAAm	Standard & Poor's
Texas Class - MBIA	AAAf	Standard & Poor's

### B. Capital Assets

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

<b>Governmental Activities:</b>	<b><u>Beginning Balances</u></b>	<b><u>Increases</u></b>	<b><u>(Decreases)</u></b>	<b><u>Ending Balances</u></b>
Capital assets not being depreciated:				
Land	\$ 1,674,919	\$ -	\$ -	\$ 1,674,919
Total capital assets not being depreciated	<u>1,674,919</u>	<u>-</u>	<u>-</u>	<u>1,674,919</u>
Other capital assets:				
Buildings and improvements	36,136,828	1,306,718	-	37,443,546
Furniture and equipment	517,333	73,044	-	590,377
Vehicles	<u>1,360,170</u>	<u>164,234</u>	<u>-</u>	<u>1,524,404</u>
Total other capital assets	<u>38,014,331</u>	<u>1,543,996</u>	<u>-</u>	<u>39,558,327</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,892,044)	(889,891)	-	(8,781,935)
Furniture and equipment	(258,759)	(38,873)	-	(297,632)
Vehicles	<u>(875,943)</u>	<u>(107,838)</u>	<u>-</u>	<u>(983,781)</u>
Total accumulated depreciation	<u>(9,026,746)</u>	<u>(1,036,602)</u>	<u>-</u>	<u>(10,063,348)</u>
Other capital assets, net	<u>28,987,585</u>	<u>507,394</u>	<u>-</u>	<u>29,494,979</u>
<b>Totals</b>	<b><u>\$ 30,662,504</u></b>	<b><u>\$ 507,394</u></b>	<b><u>\$ -</u></b>	<b><u>\$ 31,169,898</u></b>

Depreciation was charged to governmental functions as follows:

11	Instruction	\$ 612,528
34	Student (pupil) transportation	215,198
35	Food service	19,074
36	Co-curricular/extracurricular activities	56,288
41	General administration	4,872
51	Plant maintenance and operations	127,398
61	Community services	<u>1,244</u>
	Total Depreciation Expense	<u>\$ 1,036,602</u>

**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
For the Year Ended August 31, 2011

**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.

	<u>Original Issue</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due within One Year</u>
<b>Governmental Activities:</b>						
Bonds, notes and other payables:						
Series 2002-2.00% to 4.25%	\$ 2,549,831	\$ 2,545,007	\$ -	\$ (5)	\$ 2,545,002	\$ 10,000
Series 2008-3.25% to 5.25%	23,855,000	22,335,000	-	(955,000)	21,380,000	1,095,000
Series 2005 QZAB Notes - 0%	1,221,872	814,580	-	(81,458)	733,122	81,458
Series 2010-3.85%	500,000	-	500,000	(30,000)	470,000	25,000
Series 2011-5.33%	5,400,000	-	5,400,000	-	5,400,000	25,000
Series 2011A-0.71% to 5.45%	6,626,208	-	6,626,208	-	6,626,208	163,979
	<u>40,152,911</u>	<u>25,694,587</u>	<u>12,526,208</u>	<u>(1,066,463)</u>	<u>37,154,332</u>	<u>\$ 1,400,437</u>
<b>Other Liabilities:</b>						
Accreted interest	-	18,729	95,333	-	114,062	-
Unamortized premium	-	142,902	-	(5,954)	136,948	-
	<u>-</u>	<u>161,631</u>	<u>95,333</u>	<u>(5,954)</u>	<u>251,010</u>	<u>\$ -</u>
<b>Total Governmental Activities</b>	<u>\$ 40,152,911</u>	<u>\$ 25,856,218</u>	<u>\$ 12,621,541</u>	<u>\$ (1,072,417)</u>	<u>\$ 37,405,342</u>	<u>\$ 1,400,437</u>
<b>Long-term liabilities due in more than one year</b>					<u>\$ 36,004,905</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.

# HITCHCOCK

## INDEPENDENT SCHOOL DISTRICT

### NOTES TO FINANCIAL STATEMENTS, *Continued*

For the Year Ended August 31, 2011

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

Year Ended Aug 31	General Obligation Bonds		Tax Notes	Total Requirements
	Principal	Interest	Principal	
2012	\$ 1,308,981	\$ 1,418,137	\$ 81,458	\$ 2,808,576
2013	1,347,820	1,381,665	81,458	2,810,943
2014	1,422,056	1,330,528	81,458	2,834,042
2015	1,451,960	1,271,624	81,458	2,805,042
2016	1,478,276	1,243,203	81,458	2,802,937
2017-2021	7,675,412	5,537,445	407,290	13,620,147
2022-2026	8,212,040	4,352,746	-	12,564,786
2027-2031	7,719,944	4,457,431	-	12,177,375
2032-2036	5,804,721	3,909,028	-	9,713,749
	<u>\$ 36,421,210</u>	<u>\$ 24,901,807</u>	<u>\$ 814,580</u>	<u>\$ 62,137,597</u>

#### D. Commitments Under Noncapitalized Leases

During the year, the District expended a total of \$134,423 for operating (non-capitalized) leases and, in accordance with standard non-appropriation clauses in the various lease agreements, the District has no future obligation in relation to these leases.

#### E. Interfund Transactions

The interfund balances and transfers were as follows:

	Due From Other Funds	Transfers Out
General fund		
Other governmental funds	\$ 463,856	\$ 9,774
<b>Total General Fund</b>	<u>463,856</u>	<u>9,774</u>
Other governmental funds		
General fund	267,934	51,102
<b>Total Other Governmental Funds</b>	<u>267,934</u>	<u>51,102</u>
<b>Total</b>	<u>\$ 731,790</u>	<u>\$ 60,876</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, 2011

**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.

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 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.

**C. Pension Plan**

**Teacher Retirement System**

**Plan Description**

The District contributes to the Teacher Retirement System of Texas (the "System"), 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. The System provides service retirement and disability retirement benefits, and death benefits to plan members and beneficiaries. The System 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. The System issues a publicly available financial report that includes financial statements and Required Supplementary Information for the District. That report may be obtained by writing the Teacher Retirement System of Texas, 1000 Red River Street, Austin, TX 78701-2698 or by calling (800) 223-8778.

# **HITCHCOCK**

## **INDEPENDENT SCHOOL DISTRICT**

*NOTES TO FINANCIAL STATEMENTS, Continued*  
For the Year Ended August 31, 2011

### 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, 2011, 2010, and 2009 were \$576,053, \$551,979, and \$557,242, respectively, and were equal to the required contributions for each year. Other contributions made from federal and private grants and from the District for salaries above the statutory minimum for the years ending August 31, 2011, 2010, and 2009 were \$182,879, \$179,596, and \$173,400, respectively, and were equal to the required contributions for each year. The amount contributed by the State on behalf of the District was \$474,629 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 the Teacher Retirement System of Texas ("TRS"). TRS-Care provides health care coverage for certain persons (and their dependents) who retired 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. The 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 web site at [www.trs.state.tx.us](http://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 1.0 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 2009 and 2008. 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, 2011, 2010, and 2009, the State's contributions to TRS-Care were \$18,670, \$18,797, and \$17,366, respectively, the active member contributions were \$58,507, \$56,060, and \$56,595, respectively, and the District's contributions were \$49,506, \$47,436, and \$47,888, 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 the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care



**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
For the Year Ended August 31, 2011

participants. For the fiscal years ended August 31, 2011, 2010, and 2009, the subsidy payments received by TRS-Care on behalf of the District were \$20,708, \$21,456, and \$19,373, respectively.

**E. Employee Health Care Coverage**

During the year ended August 31, 2011, 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 dependants. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District and the insurer is renewable September 1, 2011 and terms of coverage and premiums costs are included in the contractual provisions.

**F. Workers' Compensation Insurance**

During the year ended August 31, 2011, the District met its statutory workers' compensation obligations through participation with the Texas Mutual Insurance Company.

**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, 2010, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

**H. Shared Services 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 ISD, Danbury ISD, and Needville ISD.

**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO FINANCIAL STATEMENTS, Continued*  
For the Year Ended August 31, 2011

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***

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# 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, 2011

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
		Original	Final		
	<b>Revenues</b>				
5700	Total local and intermediate sources	\$ 5,367,000	\$ 5,575,551	\$ 5,385,981	\$ (189,570)
5800	State program revenues	5,453,006	4,800,072	5,218,599	418,527
5900	Federal program revenues	230,000	750,000	863,136	113,136
5020	<b>Total Revenues</b>	<u>11,050,006</u>	<u>11,125,623</u>	<u>11,467,716</u>	<u>342,093</u>
	<b>Expenditures</b>				
	Current:				
0011	Instruction	5,446,425	5,694,991	5,233,066	461,925
0012	Instructional resources				
0012	and media services	180,561	147,710	129,998	17,712
0013	Curriculum and instructional				
0013	staff development	348,500	352,654	269,603	83,051
0021	Instructional leadership	144,550	141,469	116,780	24,689
0023	School leadership	809,350	940,780	893,541	47,239
0031	Guidance, counseling				
0031	and evaluation services	198,975	422,449	374,778	47,671
0033	Health services	161,900	181,119	147,849	33,270
0034	Student (pupil) transportation	545,000	556,000	447,616	108,384
0035	Food services	10,000	20,000	19,706	294
0036	Extracurricular activities	528,490	498,308	409,558	88,750
0041	General administration	801,900	821,044	764,291	56,753
0051	Plant maintenance and operations	1,339,750	1,557,039	1,333,714	223,325
0052	Security and monitoring services	132,000	117,700	93,109	24,591
0053	Data processing services	248,550	285,006	254,191	30,815
0061	Community services	85,400	97,741	83,421	14,320
0071	Debt service principal	256,500	87,000	82,836	4,164
	<b>Intergovernmental:</b>				
0093	Shared service arrangements	548,149	620,700	539,418	81,282
0095	Juvenile justice programs	25,000	26,000	13,222	12,778
0099	Other intergovernmental charges	60,000	68,000	53,206	14,794
6030	<b>Total Expenditures</b>	<u>11,871,000</u>	<u>12,635,710</u>	<u>11,259,903</u>	<u>1,375,807</u>
1100	<b>Excess (Deficiency) of Revenues</b>				
1100	<b>Over (Under) Expenditures</b>	<u>(820,994)</u>	<u>(1,510,087)</u>	<u>207,813</u>	<u>1,717,900</u>
	<b>Other Financing Sources (Uses)</b>				
7915	Transfers in	-	-	51,102	51,102
8911	Transfers (out)	-	-	(9,774)	(9,774)
7080	<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>-</u>	<u>41,328</u>	<u>41,328</u>
1200	<b>Net Change in Fund Balance</b>	<u>(820,994)</u>	<u>(1,510,087)</u>	<u>249,141</u>	<u>1,759,228</u>
0100	Beginning Fund Balance	<u>2,421,222</u>	<u>2,421,222</u>	<u>2,421,222</u>	<u>-</u>
3000	<b>Ending Fund Balance</b>	<u>\$ 1,600,228</u>	<u>\$ 911,135</u>	<u>\$ 2,670,363</u>	<u>\$ 1,759,228</u>

Notes to Required Supplementary Information:

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

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***OTHER SUPPLEMENTARY  
INFORMATION***

**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 4) - EXHIBIT H-1**  
**August 31, 2011**

		205	206	211	222
<b>Data Control Codes</b>		<b>Head Start</b>	<b>ESEA Title X Part C</b>	<b>ESEA Title I Part A</b>	<b>Learn and Serve America</b>
	<b><u>Assets</u></b>				
1110	Cash and cash equivalents	\$ 7,043	\$ -	\$ -	\$ -
1240	Due from other governments	20,195	2,208	32,723	2,893
1000	<b>Total Assets</b>	<u>\$ 27,238</u>	<u>\$ 2,208</u>	<u>\$ 32,723</u>	<u>\$ 2,893</u>
	<b><u>Liabilities</u></b>				
2110	Accounts payable	\$ 11,214	\$ -	\$ -	\$ 47
2160	Accrued wages payable	-	-	4,492	-
2170	Due to other funds	16,024	2,208	27,812	2,846
2200	Accrued expenses	-	-	419	-
2000	<b>Total Liabilities</b>	<u>27,238</u>	<u>2,208</u>	<u>32,723</u>	<u>2,893</u>
	<b><u>Fund Balances</u></b>				
	Unassigned, reported in:				
3610	Special revenue funds	-	-	-	-
3000	<b>Total Fund Balances</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	<b>Total Liabilities and Fund Balances</b>	<u>\$ 27,238</u>	<u>\$ 2,208</u>	<u>\$ 32,723</u>	<u>\$ 2,893</u>



240 National School Breakfast and Lunch Program	243 Career and Technical Technical Prep	244 Career and Technical Basic Grant	255 Title II Part A
\$ 27,454	\$ -	\$ -	\$ -
32,656	-	-	10,607
<u>\$ 60,110</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,607</u>
\$ 28,897	\$ -	\$ -	\$ -
-	-	-	3,197
19,801	-	-	7,115
-	-	-	295
<u>48,698</u>	<u>-</u>	<u>-</u>	<u>10,607</u>
11,412	-	-	-
<u>11,412</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 60,110</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,607</u>

# HITCHCOCK INDEPENDENT SCHOOL DISTRICT

## COMBINING BALANCE SHEET

*NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 4) - EXHIBIT H-1*

August 31, 2011

Data Control Codes		263	266	276	279
		Title III Part A	ARRA of 2009 Title XIV State Fiscal Stabilization	SIP Academy Grant	ARRA Title II Part D
	<b><u>Assets</u></b>				
1110	Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
1240	Due from other governments	3,972	33,621	-	-
1000	<b>Total Assets</b>	<u>\$ 3,972</u>	<u>\$ 33,621</u>	<u>\$ -</u>	<u>\$ -</u>
	<b><u>Liabilities</u></b>				
2110	Accounts payable	\$ -	\$ -	\$ -	\$ -
2160	Accrued wages payable	-	-	-	-
2170	Due to other funds	3,972	33,621	-	-
2200	Accrued expenses	-	-	-	-
2000	<b>Total Liabilities</b>	<u>3,972</u>	<u>33,621</u>	<u>-</u>	<u>-</u>
	<b><u>Fund Balances</u></b>				
	Unassigned, reported in:				
3610	Special revenue funds	-	-	-	-
3000	<b>Total Fund Balances</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	<b>Total Liabilities and Fund Balances</b>	<u>\$ 3,972</u>	<u>\$ 33,621</u>	<u>\$ -</u>	<u>\$ -</u>

280	285	288	294	313	314
ARRA Title X Part C	ARRA Title I Part A	ARRA NSLP Equip Assistance	SSA Head Start	SSA IDEA - Part B Formula	SSA IDEA - Part B Preschool
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
117	17,558	-	33,934	105,870	5,750
<u>\$ 117</u>	<u>\$ 17,558</u>	<u>\$ -</u>	<u>\$ 33,934</u>	<u>\$ 105,870</u>	<u>\$ 5,750</u>
\$ -	\$ -	\$ -	\$ 33,934	\$ 21,387	\$ 1
-	-	-	-	9,026	2,500
117	17,558	-	-	74,626	3,020
-	-	-	-	831	229
<u>117</u>	<u>17,558</u>	<u>-</u>	<u>33,934</u>	<u>105,870</u>	<u>5,750</u>
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 117</u>	<u>\$ 17,558</u>	<u>\$ -</u>	<u>\$ 33,934</u>	<u>\$ 105,870</u>	<u>\$ 5,750</u>

# HITCHCOCK INDEPENDENT SCHOOL DISTRICT

## COMBINING BALANCE SHEET

*NONMAJOR GOVERNMENTAL FUNDS (Page 3 of 4) - EXHIBIT H-1*

August 31, 2011

Data Control Codes		315	364	365	369
		SSA IDEA - Part B Discretionary	ARRA SSA IDEA - Part B Formula	ARRA SSA IDEA - Part B Preschool	ARRA SSA Head Start
	<b><u>Assets</u></b>				
1110	Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
1240	Due from other governments	1,480	101,063	11,046	-
1000	<b>Total Assets</b>	<u>\$ 1,480</u>	<u>\$ 101,063</u>	<u>\$ 11,046</u>	<u>\$ -</u>
	<b><u>Liabilities</u></b>				
2110	Accounts payable	\$ -	\$ 44,233	\$ 5,425	\$ -
2160	Accrued wages payable	-	-	-	-
2170	Due to other funds	1,480	56,830	5,621	-
2200	Accrued expenses	-	-	-	-
2000	<b>Total Liabilities</b>	<u>1,480</u>	<u>101,063</u>	<u>11,046</u>	<u>-</u>
	<b><u>Fund Balances</u></b>				
	Unassigned, reported in:				
3610	Special revenue funds	-	-	-	-
3000	<b>Total Fund Balances</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	<b>Total Liabilities and Fund Balances</b>	<u>\$ 1,480</u>	<u>\$ 101,063</u>	<u>\$ 11,046</u>	<u>\$ -</u>

394	404	409	411	415	425
Life Skills Program	Student Success Initiative	High School Completion and Success	Technology Allotment	Kindergarten and Pre-K Grants	Beginning Teacher Induction
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
9,546	9,814	16,000	-	9,924	-
<u>\$ 9,546</u>	<u>\$ 9,814</u>	<u>\$ 16,000</u>	<u>\$ -</u>	<u>\$ 9,924</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
9,546	9,814	16,000	-	9,924	-
-	-	-	-	-	-
<u>9,546</u>	<u>9,814</u>	<u>16,000</u>	<u>-</u>	<u>9,924</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 9,546</u>	<u>\$ 9,814</u>	<u>\$ 16,000</u>	<u>\$ -</u>	<u>\$ 9,924</u>	<u>\$ -</u>

# HITCHCOCK INDEPENDENT SCHOOL DISTRICT

## COMBINING BALANCE SHEET

*NONMAJOR GOVERNMENTAL FUNDS (Page 4 of 4) - EXHIBIT H-1*

August 31, 2011

Data Control Codes		428	429	493	494
		High School Allotment	Rural School Technology	Walmart Foundation Grant	TASB Risk Management Grant
	<b><u>Assets</u></b>				
1110	Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -
1240	Due from other governments	-	4,050	-	-
1000	<b>Total Assets</b>	<u>\$ -</u>	<u>\$ 4,050</u>	<u>\$ -</u>	<u>\$ -</u>
	<b><u>Liabilities</u></b>				
2110	Accounts payable	\$ -	\$ -	\$ -	\$ -
2160	Accrued wages payable	-	-	-	-
2170	Due to other funds	-	4,050	-	-
2200	Accrued expenses	-	-	-	-
2000	<b>Total Liabilities</b>	<u>-</u>	<u>4,050</u>	<u>-</u>	<u>-</u>
	<b><u>Fund Balances</u></b>				
	Unassigned, reported in:				
3610	Special revenue funds	-	-	-	-
3000	<b>Total Fund Balances</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	<b>Total Liabilities and Fund Balances</b>	<u>\$ -</u>	<u>\$ 4,050</u>	<u>\$ -</u>	<u>\$ -</u>

495			
State Farm Service Learning		Total Nonmajor Governmental Funds	
\$	-	\$	34,497
	-		465,027
\$	-	\$	499,524
\$	-	\$	145,138
	-		19,215
	-		321,985
	-		1,774
	-		488,112
	-		11,412
	-		11,412
\$	-	\$	499,524

**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
*COMBINING STATEMENT OF REVENUES, EXPENDITURES,*  
*AND CHANGES IN FUND BALANCES*  
**NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 4) - EXHIBIT H-2**  
For the Year Ended August 31, 2011

		205	206	211	222
<b>Data</b>	<b>Control</b>				
<b>Codes</b>					
	<b>Revenues</b>	<b>Head Start</b>	<b>ESEA Title X Part C</b>	<b>ESEA Title I Part A</b>	<b>Learn and Serve America</b>
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-	-
5900	Federal program revenues	1,433,452	2,208	310,456	21,180
5020	<b>Total Revenues</b>	<u>1,433,452</u>	<u>2,208</u>	<u>310,456</u>	<u>21,180</u>
	<b>Expenditures</b>				
	<b>Current:</b>				
0011	Instruction	625,806	2,208	308,900	17,797
0013	Curriculum and instructional				
0013	staff development	137,193	-	-	2,234
0021	Instructional leadership	2,980	-	-	-
0023	School leadership	167,006	-	-	-
0031	Guidance, counseling and				
0031	evaluation services	9,375	-	-	-
0032	Social work services	91,936	-	-	-
0033	Health services	55,709	-	-	-
0034	Student (pupil) transportation	153,929	-	-	787
0035	Food services	10,367	-	-	-
0041	General administration	-	-	-	-
0051	Plant maintenance and operations	153,301	-	-	-
0052	Security and monitoring services	2,605	-	-	-
0061	Community services	23,245	-	1,556	362
0093	Payments to member districts	-	-	-	-
6030	<b>Total Expenditures</b>	<u>1,433,452</u>	<u>2,208</u>	<u>310,456</u>	<u>21,180</u>
7915	Transfers in	-	-	-	-
8911	Transfers (out)	-	-	-	-
1200	<b>Net Change in Fund Balances</b>	-	-	-	-
0100	Beginning Fund Balances	-	-	-	-
3000	<b>Ending Fund Balances</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



240 National School Breakfast and Lunch Program	243 Career and Technical Technical Prep	244 Career and Technical Basic Grant	255 Title II Part A
\$ 101,152	\$ -	\$ -	\$ -
4,546	-	-	-
700,269	510	16,805	66,886
805,967	510	16,805	66,886
-	-	16,805	49,312
-	510	-	11,854
-	-	-	-
-	-	-	627
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
815,967	-	-	-
-	-	-	5,093
-	-	-	-
-	-	-	-
-	-	-	-
-	-	-	-
815,967	510	16,805	66,886
9,774	-	-	-
-	-	-	-
(226)	-	-	-
11,638	-	-	-
\$ 11,412	\$ -	\$ -	\$ -

**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
*COMBINING STATEMENT OF REVENUES, EXPENDITURES,*  
*AND CHANGES IN FUND BALANCES*  
**NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 4) - EXHIBIT H-2**  
For the Year Ended August 31, 2011

Data Control Codes		263	266	276	279
		Title III Part A	ARRA of 2009 Title XIV State Fiscal Stabilization	SIP Academy Grant	ARRA Title II Part D
	<b>Revenues</b>				
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-	-
5900	Federal program revenues	3,972	332,415	-	236
5020	<b>Total Revenues</b>	3,972	332,415	-	236
	<b>Expenditures</b>				
	<b>Current:</b>				
0011	Instruction	3,612	194,383	-	236
0013	Curriculum and instructional				
0013	staff development	360	74,573	-	-
0021	Instructional leadership	-	-	-	-
0023	School leadership	-	3,243	-	-
0031	Guidance, counseling, and				
0031	evaluation services	-	4,053	-	-
0032	Social work services	-	-	-	-
0033	Health services	-	-	-	-
0034	Student (pupil) transportation	-	-	-	-
0035	Food services	-	-	-	-
0041	General administration	-	-	-	-
0051	Plant maintenance and operations	-	56,163	-	-
0052	Security and monitoring services	-	-	-	-
0061	Community services	-	-	-	-
0093	Payments to member districts	-	-	-	-
6030	<b>Total Expenditures</b>	3,972	332,415	-	236
7915	Transfers in	-	-	-	-
8911	Transfers (out)	-	-	-	-
1200	<b>Net Change in Fund Balances</b>	-	-	-	-
0100	Beginning Fund Balances	-	-	-	-
3000	<b>Ending Fund Balances</b>	\$ -	\$ -	\$ -	\$ -

280	285	288	294	313	314
ARRA Title X Part C	ARRA Title I Part A	ARRA NSLP Equip Assistance	SSA Head Start	SSA IDEA - Part B Formula	SSA IDEA - Part B Preschool
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
3,425	87,619	13,536	695,184	820,791	49,386
3,425	87,619	13,536	695,184	820,791	49,386
-	68,934	-	-	418,561	29,102
-	17,500	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	380,724	18,534
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
3,425	-	13,536	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	1,185	-	-	21,506	1,750
-	-	-	695,184	-	-
3,425	87,619	13,536	695,184	820,791	49,386
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
*COMBINING STATEMENT OF REVENUES, EXPENDITURES,*  
*AND CHANGES IN FUND BALANCES*  
**NONMAJOR GOVERNMENTAL FUNDS (Page 3 of 4) - EXHIBIT H-2**  
For the Year Ended August 31, 2011

Data Control Codes		315	364	365	369
		SSA	ARRA SSA	ARRA SSA	ARRA SSA
		IDEA - Part B Discretionary	IDEA - Part B Formula	IDEA - Part B Preschool	ARRA SSA Head Start
	<b>Revenues</b>				
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-	-
5900	Federal program revenues	107,773	362,399	19,550	24,475
5020	<b>Total Revenues</b>	<u>107,773</u>	<u>362,399</u>	<u>19,550</u>	<u>24,475</u>
	<b>Expenditures</b>				
	<b>Current:</b>				
0011	Instruction	55,424	203,176	9,622	-
0013	Curriculum and instructional				
0013	staff development	-	5,484	355	-
0021	Instructional leadership	-	-	-	-
0023	School leadership	-	-	-	-
0031	Guidance, counseling, and				
0031	evaluation services	-	2,339	7,022	-
0032	Social work services	-	-	-	-
0033	Health services	-	-	-	-
0034	Student (pupil) transportation	52,349	151,400	2,551	-
0035	Food services	-	-	-	-
0041	General administration	-	-	-	-
0051	Plant maintenance and operations	-	-	-	-
0052	Security and monitoring services	-	-	-	-
0061	Community services	-	-	-	-
0093	Payments to member districts	-	-	-	24,475
6030	<b>Total Expenditures</b>	<u>107,773</u>	<u>362,399</u>	<u>19,550</u>	<u>24,475</u>
7915	Transfers in	-	-	-	-
8911	Transfers (out)	-	-	-	-
1200	<b>Net Change in Fund Balances</b>	-	-	-	-
0100	Beginning Fund Balances	-	-	-	-
3000	<b>Ending Fund Balances</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

394	404	409	411	415	425
Life Skills Program	Student Success Initiative	High School Completion and Success	Technology Allotment	Kindergarten and Pre-K Grants	Beginning Teacher Induction
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10,703	34,602	32,001	32,658	55,292	8,716
-	-	-	-	-	-
10,703	34,602	32,001	32,658	55,292	8,716
10,703	17,114	29,506	29,710	55,292	-
-	9,386	2,495	-	-	8,716
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	7,464	-	-	-	-
-	638	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
10,703	34,602	32,001	29,710	55,292	8,716
-	-	-	-	-	-
-	-	-	(7,672)	-	-
-	-	-	(4,724)	-	-
-	-	-	4,724	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
*COMBINING STATEMENT OF REVENUES, EXPENDITURES,*  
*AND CHANGES IN FUND BALANCES*  
**NONMAJOR GOVERNMENTAL FUNDS (Page 4 of 4) - EXHIBIT H-2**  
For the Year Ended August 31, 2011

Data Control Codes		428	429	493	494 TASB Risk Management Grant
		High School Allotment	Rural School Technology	Walmart Foundation Grant	
	<b>Revenues</b>				
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ 500
5800	State program revenues	-	5,001	-	-
5900	Federal program revenues	-	-	-	-
5020	<b>Total Revenues</b>	-	5,001	-	500
	<b>Expenditures</b>				
	<b>Current:</b>				
0011	Instruction	-	4,306	-	-
0013	Curriculum and instructional				
0013	staff development	-	695	-	-
0021	Instructional leadership	-	-	-	-
0023	School leadership	-	-	-	-
0031	Guidance, counseling, and				
0031	evaluation services	-	-	-	-
0032	Social work services	-	-	-	-
0033	Health services	-	-	-	-
0034	Student (pupil) transportation	-	-	-	-
0035	Food services	-	-	-	-
0041	General administration	-	-	-	-
0051	Plant maintenance and operations	-	-	-	-
0052	Security and monitoring services	-	-	-	-
0061	Community services	-	-	-	500
0093	Payments to member districts	-	-	-	-
6030	<b>Total Expenditures</b>	-	5,001	-	500
7915	Transfers in	-	-	-	-
8911	Transfers (out)	(43,193)	-	(237)	-
1200	<b>Net Change in Fund Balances</b>	(43,193)	-	(237)	-
0100	Beginning Fund Balances	43,193	-	237	-
3000	<b>Ending Fund Balances</b>	\$ -	\$ -	\$ -	\$ -

495	
State Farm Service Learning	Total Nonmajor Governmental Funds
\$ 1,000	\$ 102,652
-	183,519
-	5,072,527
1,000	5,358,698
400	2,150,909
-	271,355
-	2,980
-	170,876
-	422,047
-	91,936
-	55,709
-	368,480
-	843,933
-	5,093
-	209,464
-	2,605
600	50,704
-	719,659
1,000	5,365,750
-	9,774
-	(51,102)
-	(48,380)
-	59,792
\$ -	\$ 11,412

**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF DELINQUENT TAXES RECEIVABLE - EXHIBIT J-1*  
For the Year Ended August 31, 2011

Last Ten Years	1		2		3		10
	Tax Rates				Net Assessed/ Appraised Value For School Tax Purposes		Beginning Balance 8/31/10
	Maintenance	Debt Service					
2002 and prior	\$ Various	\$ Various	\$ Various	\$ Various	\$ Various	\$	433,903
2003	\$ 1.4425	\$ 0.2060	\$ 277,725,123				48,916
2004	\$ 1.4833	\$ 0.2200	\$ 277,751,460				55,228
2005	\$ 1.5000	\$ 0.2680	\$ 292,543,602				64,340
2006	\$ 1.5000	\$ 0.2270	\$ 346,894,397				68,659
2007	\$ 1.3701	\$ 0.1450	\$ 424,800,116				88,865
2008	\$ 1.0401	\$ 0.1750	\$ 488,046,352				84,149
2009	\$ 1.0401	\$ 0.3700	\$ 529,884,187				184,118
2010	\$ 1.0401	\$ 0.4000	\$ 511,710,009				363,584
2011	\$ 1.0400	\$ 0.4600	\$ 493,820,200				-
1000 Totals						\$	1,391,762



20	31	32	40	50
Current Year's Total Levy	Maintenance Total Collected	Debt Service Total Collected	Entire Year's Adjustments	Ending Balance 8/31/11
\$ -	\$ 8,621	\$ 1,526	\$ (216,817)	\$ 206,939
-	1,915	355	(2,278)	44,368
-	3,919	599	(2,455)	48,255
-	4,889	685	(1,468)	57,298
-	8,513	1,107	(2,141)	56,898
-	16,162	2,300	(1,634)	68,769
-	15,395	2,590	4,245	70,409
-	48,759	17,346	9,414	127,427
-	120,121	46,198	(40,926)	156,339
<u>7,407,303</u>	<u>4,772,471</u>	<u>2,110,901</u>	<u>-</u>	<u>523,931</u>
<u>\$ 7,407,303</u>	<u>\$ 5,000,765</u>	<u>\$ 2,183,607</u>	<u>\$ (254,060)</u>	<u>\$ 1,360,633</u>

**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF EXPENDITURES FOR COMPUTATION OF*  
*INDIRECT COSTS FOR 2012-2013*  
**GENERAL AND SPECIAL REVENUE FUNDS - EXHIBIT J-2**  
For the Year Ended August 31, 2011

Account Number		(1) 702	(2) 703	(3) 701
		School Board	Tax Collection	Superintendent's Office
611X-6146	Payroll costs	\$ -	\$ -	\$ 214,463
6211	Legal services	47,472	-	-
6212	Audit services	-	-	-
6213	Tax appraisal/collection	-	53,206	-
621X	Other professional services	7,107	3,031	-
6230	Education service centers	-	-	-
6240	Maintenance and repairs	-	-	-
6260	Rentals	-	-	-
6290	Miscellaneous contracts	-	-	-
6320	Textbooks and reading	500	-	-
63XX	Other supplies	607	-	5,045
6410	Travel, subsistence, and stipends	21,434	-	941
6430	Election expense	150	-	-
6490	Miscellaneous operating	6,406	-	1,031
<b>Totals</b>		<u>\$ 83,676</u>	<u>\$ 56,237</u>	<u>\$ 221,480</u>

**Other Information:**

**Total expenditures for general and special revenue funds (Exhibit C-3)** (9) \$ 16,625,653

Less: deductions of unallowed costs:

**Fiscal Year**

Total capital outlay (6600)	(10) \$	-
Total debt and lease (6500)	(11)	1,378
Plant maintenance (function 51, 6100-6400)	(12)	1,543,178
Food (function 35, 6341 and 6499)	(13)	863,639
Stipends (6413)	(14)	-
Column (4) above - total indirect cost		<u>679,378</u>
Subtotal		3,087,573
<b>Net Allowable Direct Cost</b>		<u>\$ 13,538,080</u>

(8) Note A: \$254,191 in function 53 expenditures and \$53,206 in function 99 expenditures are included in this report on administrative costs.

(4) 750	(5) 720	(6) (Other)	(7)
Indirect Cost	Direct Cost	Miscellaneous	Total
\$ 520,049	\$ -	\$ 30,917	\$ 765,429
-	-	-	47,472
24,280	-	-	24,280
-	-	-	53,206
12,322	-	-	22,460
20,853	-	-	20,853
19,962	-	-	19,962
27,756	-	-	27,756
1,851	-	-	1,851
-	-	-	500
32,141	-	-	37,793
7,738	-	-	30,113
-	-	-	150
12,426	-	-	19,863
<u>\$ 679,378</u>	<u>\$ -</u>	<u>\$ 30,917</u>	<u>\$ 1,071,688</u>

**Cumulative**

Total cost of buildings before depreciation (1520)	(15) \$	37,443,546
Historical cost of buildings over 50 years old	(16) \$	385,576
Amount of federal money in building cost (Net of 16)	(17) \$	-
Total cost of furniture and equipment before depreciation (1530 and 1540)	(18) \$	2,114,781
Historical cost of furniture and equipment over 16 years old	(19) \$	40,300
Amount of federal money in furniture and equipment (Net of 19)	(20)	-

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**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
**FUND BALANCE AND CASH FLOW CALCULATION SCHEDULE (UNAUDITED)**  
**GENERAL FUND - EXHIBIT J-3**  
**August 31, 2011**

1. Total general fund balance at year end (Exhibit C-1, object 3000 for the general fund only)	\$ 2,670,363
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)	355,925
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)	-
7. Estimate of two months' average cash disbursements during the fiscal year	2,142,276
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)	2,498,201
13. Excess or (deficit) unassigned general fund balance (1-12)	\$ 172,162

The District's administration will continue to monitor the fund balance in the general fund in the following budgetary cycles to maintain a fund balance level within District policy and State guidelines.

# HITCHCOCK

## INDEPENDENT SCHOOL DISTRICT

### BUDGETARY COMPARISON SCHEDULE

### CHILD NUTRITION FUND - EXHIBIT J-4

For the Year Ended August 31, 2011

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
		Original	Final		
	<b>Revenues</b>				
5700	Total local and intermediate sources	\$ 172,999	\$ 221,004	\$ 101,152	\$ (119,852)
5800	State program revenues	7,266	7,266	4,546	(2,720)
5900	Federal program revenues	511,730	571,730	700,269	128,539
5020	<b>Total Revenues</b>	<u>691,995</u>	<u>800,000</u>	<u>805,967</u>	<u>5,967</u>
	<b>Expenditures</b>				
	Current:				
0035	Food services	700,000	800,000	815,967	(15,967) *
6030	<b>Total Expenditures</b>	<u>700,000</u>	<u>800,000</u>	<u>815,967</u>	<u>(15,967)</u>
1100	<b>Excess (Deficiency) of Revenues</b>				
1100	<b>Over (Under) Expenditures</b>	<u>(8,005)</u>	<u>-</u>	<u>(10,000)</u>	<u>(10,000)</u>
	<b>Other Financing Sources (Uses)</b>				
7915	Transfers in	-	-	9,774	9,774
7080	<b>Total Other Financing Sources</b>	<u>-</u>	<u>-</u>	<u>9,774</u>	<u>9,774</u>
1200	<b>Net Change in Fund Balance</b>	<u>(8,005)</u>	<u>-</u>	<u>(226)</u>	<u>(226)</u>
0100	Beginning Fund Balance	11,638	11,638	11,638	-
3000	<b>Ending Fund Balance</b>	<u>\$ 3,633</u>	<u>\$ 11,638</u>	<u>\$ 11,412</u>	<u>\$ (226)</u>

Notes to budgetary comparison schedule:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles.
2. \*Expenditures exceeded appropriations at the legal level of control.

**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
*BUDGETARY COMPARISON SCHEDULE*  
**DEBT SERVICE FUND - EXHIBIT J-5**

For the Year Ended August 31, 2011

<b>Data Control Codes</b>		<b>Budgeted Amounts</b>		<b>Actual</b>	<b>Variance With Final Budget Positive (Negative)</b>
		<b>Original</b>	<b>Final</b>		
	<b><u>Revenues</u></b>				
5700	Total local and intermediate sources	\$ 1,889,406	\$ 2,286,000	\$ 2,246,303	\$ (39,697)
5900	Federal program revenues	-	-	107,933	107,933
5020	<b>Total Revenues</b>	<u>1,889,406</u>	<u>2,286,000</u>	<u>2,354,236</u>	<u>68,236</u>
	<b><u>Expenditures</u></b>				
0071	Debt services	<u>1,889,406</u>	<u>2,286,000</u>	<u>2,254,873</u>	<u>31,127</u>
6030	<b>Total Expenditures</b>	<u>1,889,406</u>	<u>2,286,000</u>	<u>2,254,873</u>	<u>31,127</u>
1200	<b>Net Change in Fund Balance</b>	-	-	99,363	99,363
0100	Beginning Fund Balance	<u>1,050,924</u>	<u>1,050,924</u>	<u>1,050,924</u>	<u>-</u>
3000	<b>Ending Fund Balance</b>	<u>\$ 1,050,924</u>	<u>\$ 1,050,924</u>	<u>\$ 1,150,287</u>	<u>\$ 99,363</u>

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***FEDERAL AWARDS SECTION***

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hitchcock Independent School District (the "District"), as of and for the year ended August 31, 2011, which collectively comprise the District's basic financial statements and have issued our report there on dated January 17, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting 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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

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

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

*BELT HARRIS PECHACEK, LLP*

Belt Harris Pechacek, LLP  
*Certified Public Accountants*  
Houston, Texas  
January 17, 2012

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND  
ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH  
OMB CIRCULAR A-133**

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

**Compliance**

We have audited Hitchcock Independent School District's (the "District") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (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, 2011. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, the District complied, in all material respects, with the 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, 2011.

## **Internal Control Over Compliance**

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

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 deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

*BELT HARRIS PECHACEK, LLP*

Belt Harris Pechacek, LLP  
*Certified Public Accountants*  
Houston, Texas  
January 17, 2012

**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
*SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS*  
For the Year Ended August 31, 2011

**A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS**

None

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**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***  
**For the Year Ended August 31, 2011**

**A. SUMMARY OF AUDIT RESULTS**

1. The auditors' report expresses an unqualified opinion on the financial statements of Hitchcock Independent School 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 unqualified 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>
10.553 & 10.555	Child Nutrition Cluster
84.010 & 84.389	Title I Cluster
84.027, 84.173, 84.391 & 84.392	IDEA B Cluster
84.394	State Fiscal Stabilization Funds
93.600 & 93.708	Head Start Cluster

8. The threshold for distinguishing Type A and B programs was \$300,000.
9. The District did qualify as a low-risk auditee.

**B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT**

*None*

**C. FINDINGS – FEDERAL AUDIT AWARDS**

*None*

**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT K-1 (Page 1 of 2)**  
For the Year Ended August 31, 2011

(1)	(2)	(2A)	(3)
Federal Grantor/Pass Through Grantor/Program or Cluster Title	FEDERAL CFDA NUMBER	ENTITY IDENTIFYING NUMBER	FEDERAL EXPENDITURES
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed Through State Department of Education			
ESEA Title I, Part A*	84.010	11610101084908	\$ 310,456
IDEA B, Formula*	84.027	116600010849086600	820,791
Carl Perkins, Basic Grant	84.048	11420006084908	16,805
IDEA B, Preschool*	84.173	116610010849086610	49,386
IDEA B, High Cost Risk Pool*	84.173	11660006084908	107,773
Title X, Part C	84.196	084908	2,208
Carl Perkins, Tech Prep	84.243	084908	510
Title III, English Language	84.365	10671001170904	3,972
Title II, Part A	84.367	11694501084908	66,886
ARRA Title II, D Technology*	84.386	10553001170904	236
ARRA, Title I, Part A*	84.389	10551001170904	87,619
ARRA IDEA B, Formula*	84.391	10554001170904	362,399
ARRA IDEA B, Preschool*	84.392	10555001170904	19,550
ARRA Title XIV, SFSF	84.394	11557001084908	332,415
National Community Service Trust Act	94.006	084908	21,180
<b>TOTAL U.S. DEPARTMENT OF EDUCATION</b>			<b>2,202,186</b>
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed Through State Department of Education			
School Breakfast Programs*	10.553	71401001	216,554
National School Lunch*	10.555	71301001	450,462
USDA Commodities	10.565	084908	33,253
NSLP Equipment Assistance Grant ARRA	10.579	084908	13,536
CACFP*	10.558	084908	3,425
<b>TOTAL U.S. DEPARTMENT OF AGRICULTURE</b>			<b>717,230</b>
<b>U.S. DEPARTMENT OF HEALTH</b>			
Head Start*	93.600	084908	2,128,636
ARRA, Head Start*	93.708	084908	24,475
<b>TOTAL U.S. DEPARTMENT OF HEALTH</b>			<b>2,153,111</b>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<b>\$ 5,072,527</b>

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

The accompanying notes are an integral part of this schedule.

**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
***SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT K-1 (Page 2 of 2)***  
**For the Year Ended August 31, 2011**

Federal revenue per SEFA	\$	5,072,527
Indirect Costs		56,264
SHARS		870,743
E-RATE		139,753
Reimbursement for debt service		<u>107,933</u>
C-2 Federal Revenue	\$	<u><u>6,247,220</u></u>

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**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
***NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS***  
**For the Year Ended August 31, 2011**

**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.

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**HITCHCOCK**  
**INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF REQUIRED RESPONSES TO*  
*SELECTED SCHOOL FIRST INDICATORS - EXHIBIT L-1*

For the year ended August 31, 2011

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the annual financial report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the District receive a clean audit? - Was there an unqualified opinion in the annual financial report?	Yes
SF5	Did the annual financial report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the annual financial report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year end?	<u>\$ 114,062</u>