

ANNUAL FINANCIAL REPORT

of the

**HITCHCOCK
INDEPENDENT SCHOOL DISTRICT**

**For the Year Ended
August 31, 2019**

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HITCHCOCK INDEPENDENT SCHOOL DISTRICT

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INTRODUCTORY SECTION

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CERTIFICATE OF BOARD

<u>Hitchcock</u>	<u>Galveston</u>	<u>084-908</u>
Independent School District	County	Co. Dist. Number
Name of School District		

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ☒ approved ☐ disapproved for the year ended August 31, 2019 at a meeting of the Board of Trustees of such school district on the 19th day of FEBRUARY, 2020



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)

CERTIFICATE OF BOARD

<u>Hitchcock</u>	<u>Galveston</u>	<u>084-908</u>
<u>Independent School District</u>	<u>County</u>	<u>Co. Dist. Number</u>
Name of School District		

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ☐ approved ☐ disapproved for the year ended August 31, 2019 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
Hitchcock Independent School District:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hitchcock Independent School District (the "District") as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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, 2019, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, other supplementary information, and the schedule of required responses to selected school first indicators are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

The introductory section and the schedule of required responses to selected school first indicators have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated on February 11, 2020 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 effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas
February 11, 2020

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

HITCHCOCK INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended August 31, 2019

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of Hitchcock Independent School District (the "District") for the year ending August 31, 2019. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the District's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position at year end was a deficit of \$818,453.
- For the fiscal year ended August 31, 2019, the District's general fund reported a total fund balance of \$2,296,156, of which \$85,803 is nonspendable for inventories and prepaid items and \$2,210,353 is unassigned.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds, the debt service fund, and the capital projects fund) reported combined ending fund balances of \$5,717,009.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts – *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The basic statements include two kinds of statements that present different views of the District.

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

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

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2019

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

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

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2019

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, additional information is provided at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Fiduciary funds* – The District serves as the trustee, or fiduciary, for certain funds such as student activity funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was a deficit of \$818,453 at year end. *Table 1* focuses on net position while *Table 2* shows the revenues and expenses that changed the net position balance during the fiscal year ended August 31, 2019. In comparison to the prior year, total assets decreased by \$1,961,207 mainly due to the depreciation of the District's capital assets. Total liabilities increased by a net \$2,709,448 primarily due to the increase in pension and other postemployment benefit liabilities.

Operating grants and contributions increased largely due to prior year negative revenues related to non-employer contributing entity on-behalf accruals from the State for the other postemployment benefit plan. Expenses increased by \$7,144,281 in comparison to 2018. The increase can primarily be attributed to the prior year negative expenses related to non-employer contributing entity on-behalf accruals for the other postemployment benefit plan and the current year increases in the net pension and other postemployment benefit liabilities. The District reported a decrease of \$365,314 in net position from the prior year.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2019

Table 1
Net Position

Description	Governmental Activities		Total Change
	2019	2018	2019-2018
Current assets	\$ 7,680,944	\$ 8,591,504	\$ (910,560)
Capital assets	38,971,219	40,021,866	(1,050,647)
Total Assets	46,652,163	48,613,370	(1,961,207)
Deferred charge on refunding	1,291,385	1,377,476	(86,091)
Deferred outflows - pensions	4,298,657	1,584,732	2,713,925
Deferred outflows - OPEB	1,422,904	121,347	1,301,557
Total Deferred Outflows of Resources	7,012,946	3,083,555	3,929,391
Current liabilities	1,260,836	1,584,575	(323,739)
Long-term liabilities	33,757,657	35,969,667	(2,212,010)
Net pension liability	7,454,438	3,882,397	3,572,041
Net OPEB liability	8,814,705	7,141,549	1,673,156
Total Liabilities	51,287,636	48,578,188	2,709,448
Deferred inflows - pensions	408,504	593,814	(185,310)
Deferred inflows - OPEB	2,787,422	2,978,062	(190,640)
Total Deferred Inflows of Resources	3,195,926	3,571,876	(375,950)
Net Position:			
Net investment in capital assets	6,504,947	5,628,191	876,756
Restricted	3,420,835	2,776,851	643,984
Unrestricted	(10,744,235)	(8,858,181)	(1,886,054)
Total Net Position	\$ (818,453)	\$ (453,139)	\$ (365,314)

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2019

Table 2
Changes in Net Position

	Governmental Activities		Total Change
	2019	2018	2019-2018
Revenues			
Program revenues:			
Charges for services	\$ 70,567	\$ 83,260	\$ (12,693)
Operating grants and contributions	8,509,666	4,912,095	3,597,571
General revenues:			
Property taxes	10,662,003	10,227,164	434,839
Grants and contributions not restricted	7,059,874	7,007,806	52,068
Investment earnings	96,228	78,399	17,829
Miscellaneous	28,386	182,958	(154,572)
Total Revenues	26,426,724	22,491,682	3,935,042
Expenses			
Instruction	12,666,953	8,244,635	4,422,318
Instructional resources and media services	155,004	69,353	85,651
Curriculum and staff development	483,773	363,475	120,298
Instructional leadership	509,997	393,947	116,050
School leadership	1,329,900	938,368	391,532
Guidance, counseling, and evaluation services	1,531,536	690,701	840,835
Social work services	123,081	12,734	110,347
Health services	312,487	161,884	150,603
Student (pupil) transportation	1,365,824	1,257,866	107,958
Food services	1,250,909	1,192,585	58,324
Co-curricular/extracurricular activities	804,237	692,420	111,817
General administration	1,140,078	811,948	328,130
Plant maintenance and operations	2,728,929	2,779,288	(50,359)
Security and monitoring	421,415	167,326	254,089
Data processing services	351,460	292,645	58,815
Community services	78,446	24,468	53,978
Interest on long-term debt	1,140,419	1,183,193	(42,774)
Payments related to shared services arrangements	261,987	185,085	76,902
Payments to juvenile justice programs	64,277	106,214	(41,937)
Other intergovernmental charges	71,326	79,622	(8,296)
Total Expenses	26,792,038	19,647,757	7,144,281
Change in Net Position	(365,314)	2,843,925	(3,209,239)
Beginning net position	(453,139)	(3,297,064)	2,843,925
Ending Net Position	\$ (818,453)	\$ (453,139)	\$ (365,314)

Total revenues were \$26,426,724, which is an increase of \$3,935,042 from the 2018 fiscal year. This net increase is mainly due to an increase in operating grants and contributions. Property tax revenue is the District's largest source of revenue, which totaled \$10,662,003 for the year. This represents an increase of \$434,839 compared to the previous year.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2019

Expenses for governmental activities totaled \$26,792,038, which was an increase of \$7,144,281. This net increase can largely be seen in instruction, guidance, counseling, and evaluation services; school leadership; and general administration. The increase can primarily be attributed to the increase in the District's pension and other post-employment benefits liabilities.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ended August 31, 2019, the District's governmental funds reported a combined fund balance of \$5,717,009. The combined fund balance decreased \$628,489 from prior year. At the end of the fiscal year, the District's fund balance in the general fund decreased by \$1,193,720 primarily due to an increase in instruction and security and monitoring expenditures. Security and monitoring costs increased as a result of the District creating its own police department to provide a greater sense of security to staff and students. The national school breakfast and lunch fund recognized \$1,153,074 in revenues and \$1,200,188 in expenditures to provide food service during the year. The debt service fund balance increased due to property tax revenue being greater than debt service payments by \$519,203. The special education cooperative fund had an increase in fund balance of \$124,401 due to revenues in excess of expenditures. The special education coop-autism fund had no change in fund balance as a result of program revenues that covered expenditures.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

During the period ended August 31, 2019, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenses. The general fund's budgeted revenues exceeded actual revenues by \$498,789 mainly due to less local and State revenues than expected. Actual expenditures exceeded budgeted expenditures by a net \$180,181 mainly due to higher expenditures than expected in instruction.

CAPITAL ASSETS

Capital assets are generally defined as those items that have useful lives of two years or more and have an initial cost (value if donated) or of an amount determined by the Board. Donated capital assets are recorded at acquisition value at the date of donation. 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 \$38,971,219 invested in capital assets (net of depreciation) such as land, buildings, and District equipment. This was a net decrease of \$1,050,647 compared with the prior year.

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 \$31,490,327 in general obligation bonds, notes, and other payables outstanding versus \$33,567,797 last year. There was a net decrease of \$2,077,470 related to the District's bond, note and other loan liabilities.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2019

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 2019-2020 school year total \$22,391,216 and the District's Board adopted a maintenance and operations tax rate of \$0.97 and an interest and sinking rate of \$0.41 for a combined rate of \$1.38 per \$100 of property valuation.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office at 7801 Neville Avenue, Hitchcock, Texas 77563.

BASIC FINANCIAL STATEMENTS

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HITCHCOCK INDEPENDENT SCHOOL DISTRICT

STATEMENT OF NET POSITION - EXHIBIT A-1

August 31, 2019

1

Data Control Codes		Governmental Activities
	<u>Assets</u>	
1110	Cash and cash equivalents	\$ 1,592,455
1120	Investments	2,932,123
1220	Property taxes - delinquent	1,028,276
1230	Allowance for uncollectible taxes	(252,166)
1240	Due from other governments	2,236,743
1290	Other receivables	57,710
1300	Inventories, at cost	55,551
1410	Prepaid items	30,252
		<u>7,680,944</u>
	Capital assets:	
1510	Land	1,674,919
1520	Buildings, net	36,374,027
1530	Furniture and equipment, net	244,449
1540	Vehicles, net	677,824
		<u>38,971,219</u>
1000	Total Assets	<u>46,652,163</u>
	<u>Deferred Outflows of Resources</u>	
1701	Deferred charge on refunding	1,291,385
1705	Deferred outflows - pensions	4,298,657
1706	Deferred outflows - OPEB	1,422,904
1700	Total Deferred Outflows of Resources	<u>7,012,946</u>
	<u>Liabilities</u>	
2110	Accounts payable	103,097
2140	Interest payable	73,010
2150	Payroll deductions and withholdings	192,033
2160	Accrued wages payable	456,184
2180	Due to other governments	395,364
2200	Accrued expenditures	41,148
		<u>1,260,836</u>
	Noncurrent liabilities:	
2501	Long-term liabilities due within one year	2,116,285
2502	Long-term liabilities due in more than one year	31,641,372
2540	Net pension liability	7,454,438
2545	Net OPEB liability	8,814,705
2000	Total Liabilities	<u>51,287,636</u>
	<u>Deferred Inflows of Resources</u>	
2605	Deferred inflows - pensions	408,504
2606	Deferred inflows - OPEB	2,787,422
2600	Total Deferred Inflows of Resources	<u>3,195,926</u>
	<u>Net Position</u>	
3200	Net investment in capital assets	6,504,947
	Restricted for:	
3820	Federal and state programs	406,405
3850	Debt service	3,014,430
3900	Unrestricted	(10,744,235)
3000	Total Net Position	<u>\$ (818,453)</u>

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HITCHCOCK INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES - EXHIBIT B-1

For the Year Ended August 31, 2019

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
			3 Charges for Services	4 Operating Grants and Contributions	
					6 Primary Gov. Governmental Activities
	Primary Government				
	Governmental Activities				
0011	Instruction	\$ 12,666,953	\$ -	\$ 4,619,987	\$ (8,046,966)
0012	Instructional resources				
0012	and media services	155,004	-	9,019	(145,985)
0013	Curriculum/instructional				
0013	staff development	483,773	-	202,406	(281,367)
0021	Instructional leadership	509,997	-	402,857	(107,140)
0023	School leadership	1,329,900	-	267,326	(1,062,574)
0031	Guidance, counseling,				
0031	and evaluation services	1,531,536	-	1,198,613	(332,923)
0032	Social work services	123,081	-	123,706	625
0033	Health services	312,487	-	92,243	(220,244)
0034	Student (pupil) transportation	1,365,824	-	68,226	(1,297,598)
0035	Food services	1,250,909	70,567	1,092,862	(87,480)
0036	Extracurricular activities	804,237	-	29,059	(775,178)
0041	General administration	1,140,078	-	54,279	(1,085,799)
0051	Plant maintenance and operations	2,728,929	-	131,478	(2,597,451)
0052	Security and monitoring services	421,415	-	15,587	(405,828)
0053	Data processing services	351,460	-	50,155	(301,305)
0061	Community services	78,446	-	70,115	(8,331)
0072	Interest - long-term debt	1,140,419	-	81,748	(1,058,671)
0093	Payments to fiscal agent/member				
0093	districts of SSA	261,987	-	-	(261,987)
0095	Payments to juvenile justice	64,277	-	-	(64,277)
0099	Other intergovernmental charges	71,326	-	-	(71,326)
	Total Governmental Activities	<u>\$ 26,792,038</u>	<u>\$ 70,567</u>	<u>\$ 8,509,666</u>	<u>(18,211,805)</u>
TP	Total Primary Government	<u>\$ 26,792,038</u>	<u>\$ 70,567</u>	<u>\$ 8,509,666</u>	<u>(18,211,805)</u>
	General Revenues				
MT	Property taxes, levied for general purposes				7,305,459
DT	Property taxes, levied for debt service				3,356,544
GC	Grants and contributions not restricted				7,059,874
IE	Investment earnings				96,228
MI	Miscellaneous local and intermediate revenue				28,386
TR	Total General Revenues				<u>17,846,491</u>
CN	Change in Net Position				<u>(365,314)</u>
NB	Beginning net position				<u>(453,139)</u>
NE	Ending Net Position				<u>\$ (818,453)</u>

See Notes to Financial Statements.

HITCHCOCK INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS - EXHIBIT C-1

August 31, 2019

Data Control Codes		10	20	50	
		General	National School Breakfast and Lunch Program	Debt Service	Special Education Cooperative
	<u>Assets</u>				
1110	Cash and cash equivalents	\$ 603,952	\$ 147,900	\$ 538,327	\$ 290,264
1120	Investments	720,831	-	2,097,769	113,523
1220	Property taxes - delinquent	727,801	-	300,475	-
1230	Allowance for uncollectible taxes	(193,551)	-	(58,615)	-
1240	Due from other governments	467,521	110,318	-	856,685
1260	Due from other funds	1,409,170	-	378,334	-
1290	Other receivables	57,710	-	-	-
1300	Inventories, at cost	55,551	-	-	-
1410	Prepaid items	30,252	-	-	-
1000	Total Assets	<u>\$ 3,879,237</u>	<u>\$ 258,218</u>	<u>\$ 3,256,290</u>	<u>1,260,472</u>
	<u>Liabilities</u>				
2110	Accounts payable	\$ 38,803	\$	\$ -	\$ 63,075
2150	Payroll deductions and withholdings	192,033	-	-	-
2160	Accrued wages payable	393,454	-	-	12,210
2170	Due to other funds	389,194	258,218	-	383,358
2180	Due to other governments	-	-	-	395,364
2200	Accrued expenditures	35,348	-	-	418
2000	Total Liabilities	<u>1,048,832</u>	<u>258,218</u>	<u>-</u>	<u>854,425</u>
	<u>Deferred Inflows of Resources</u>				
2600	Unavailable revenue - property taxes	534,249	-	241,860	-
		<u>534,249</u>	<u>-</u>	<u>241,860</u>	<u>-</u>
	<u>Fund Balances</u>				
	Nonspendable				
3410	Inventories	55,551	-	-	-
3430	Prepaid items	30,252	-	-	-
	Restricted				
3450	Grant funds	-	-	-	406,047
3470	Capital projects	-	-	-	-
3480	Debt service	-	-	3,014,430	-
3600	Unassigned	2,210,353	-	-	-
3000	Total Fund Balances	<u>2,296,156</u>	<u>-</u>	<u>3,014,430</u>	<u>406,047</u>
4000	Total Liabilities, Deferred Inflows				
4000	of Resources, and Fund Balances	<u>\$ 3,879,237</u>	<u>\$ 258,218</u>	<u>\$ 3,256,290</u>	<u>\$ 1,260,472</u>

See Notes to Financial Statements.

Special Education Coop-Autism	Nonmajor Governmental Funds	98 Total Governmental Funds
\$ -	\$ 12,012	\$ 1,592,455
-	-	2,932,123
-	-	1,028,276
-	-	(252,166)
447,875	354,344	2,236,743
-	10,860	1,798,364
-	-	57,710
-	-	55,551
-	-	30,252
<u>447,875</u>	<u>\$ 377,216</u>	<u>\$ 9,479,308</u>
\$ -	\$ 1,219	\$ 103,097
-	-	192,033
-	50,520	456,184
447,875	319,719	1,798,364
-	-	395,364
-	5,382	41,148
<u>447,875</u>	<u>376,840</u>	<u>2,986,190</u>
-	-	776,109
-	-	776,109
-	-	55,551
-	-	30,252
-	358	406,405
-	18	18
-	-	3,014,430
-	-	2,210,353
-	376	5,717,009
<u>\$ 447,875</u>	<u>\$ 377,216</u>	<u>\$ 9,479,308</u>

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

August 31, 2019

Total fund balances for governmental funds	\$	5,717,009
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Amounts reported for governmental activities in the Statement of Net Position are different because:

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

Capital assets - nondepreciable	1,674,919	
Capital assets - depreciable	37,296,300	
		38,971,219

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

Accrued interest	(73,010)	
Deferred outflows - pensions	4,298,657	
Deferred outflows - OPEB	1,422,904	
Deferred tax revenue	776,109	
Deferred charge on refunding	1,291,385	
Deferred inflows - pensions	(408,504)	
Deferred inflows - OPEB	(2,787,422)	
Noncurrent liabilities due in one year	(2,116,285)	
Net pension liability	(7,454,438)	
Net OPEB liability	(8,814,705)	
Noncurrent liabilities due in more than one year	(31,641,372)	
		(45,506,681)

Net Position of Governmental Activities	\$	(818,453)
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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, 2019

Data Control Codes		General	National School Breakfast and Lunch Program	Debt Service	Special Education Cooperative
<u>Revenues</u>					
5700	Local, intermediate, and out-of-state	\$ 7,385,388	\$ 70,567	\$ 3,396,551	\$ 3,242
5800	State program revenues	7,823,197	4,682	81,748	676,301
5900	Federal program revenues	635,461	1,077,825	-	407,718
5020	Total Revenues	15,844,046	1,153,074	3,478,299	1,087,261
<u>Expenditures</u>					
Current:					
0011	Instruction	8,244,690	-	-	214,205
0012	Instruction resources and media services	146,247	-	-	-
0013	Curriculum/instructional staff development	282,129	-	-	2,000
0021	Instructional leadership	107,680	-	-	384,248
0023	School leadership	1,065,555	-	-	-
0031	Guidance, counseling, and evaluation services	337,596	-	-	356,900
0032	Social work services	-	-	-	-
0033	Health services	220,986	-	-	-
0034	Student (pupil) transportation	973,759	-	-	-
0035	Food services	11,586	1,200,188	-	-
0036	Extracurricular activities	691,093	-	-	-
0041	General administration	1,079,889	-	-	4,750
0051	Plant maintenance and operations	2,406,307	-	-	757
0052	Security and monitoring services	406,228	-	-	-
0053	Data processing services	301,602	-	-	-
0061	Community services	6,900	-	-	-
Debt service:					
0071	Principal	248,981	-	1,827,039	-
0072	Interest and fiscal charges	61,834	-	1,127,257	-
0073	Bond issuance costs	-	-	4,800	-
0081	Capital outlay	-	-	-	-
Intergovernmental:					
0093	Payments to member districts of SSA	261,987	-	-	-
0095	Payments to juvenile justice programs	64,277	-	-	-
0099	Other intergovernmental charges	71,326	-	-	-
6030	Total Expenditures	16,990,652	1,200,188	2,959,096	962,860
1100	Excess (Deficiency) of Revenues				
1100	Over (Under) Expenditures	(1,146,606)	(47,114)	519,203	124,401
<u>Other Financing Sources (Uses)</u>					
7915	Transfer in (out)	(47,114)	47,114	-	-
7080	Total Other Financing Sources	(47,114)	47,114	-	-
1200	Net Change in Fund Balances	(1,193,720)	-	519,203	124,401
0100	Beginning fund balances	3,489,876	-	2,495,227	281,646
3000	Ending Fund Balances	\$ 2,296,156	\$ -	\$ 3,014,430	\$ 406,047

See Notes to Financial Statements.

Special Education Coop-Autism	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 18,720	\$ 10,874,468
742,182	65,199	9,393,309
-	3,463,783	5,584,787
<u>742,182</u>	<u>3,547,702</u>	<u>25,852,564</u>
742,182	2,114,198	11,315,275
-	-	146,247
-	174,210	458,339
-	-	491,928
-	164,833	1,230,388
-	681,102	1,375,598
-	102,233	102,233
-	66,763	287,749
-	38,165	1,011,924
-	10,355	1,222,129
-	-	691,093
-	-	1,084,639
-	93,360	2,500,424
-	1,845	408,073
-	39,992	341,594
-	60,238	67,138
-	-	2,076,020
-	-	1,189,091
-	-	4,800
-	78,781	78,781
-	-	261,987
-	-	64,277
-	-	71,326
<u>742,182</u>	<u>3,626,075</u>	<u>26,481,053</u>
<u>-</u>	<u>(78,373)</u>	<u>(628,489)</u>
-	-	-
-	-	-
-	(78,373)	(628,489)
-	78,749	6,345,498
<u>\$ -</u>	<u>\$ 376</u>	<u>\$ 5,717,009</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, 2019

Net changes in fund balances - total governmental funds	\$	(628,489)
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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		(1,563,975)
Capital outlay		513,328

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		38,095
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The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when it is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Amortization of premium on bonds, net		143,924
Deferred charge on refunding		(86,091)
Principal repayments		2,077,470
Accrued interest		3,573
Accreted interest		(9,384)

Pension and OPEB activity reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as an expenditure or revenue in governmental funds.

Change in net pension liability		(3,572,041)
Change in net OPEB liability		(1,673,156)
Net change in deferred outflows and inflows - pensions		2,899,235
Net change in deferred outflows and inflows - OPEB		1,492,197
Net on-behalf contributions adjustment - revenue		536,065
Net on-behalf contributions adjustment - expenses		(536,065)

Change in Net Position of Governmental Activities	\$	(365,314)
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See Notes to Financial Statements.

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HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS - EXHIBIT E-1

August 31, 2019

Data Control Codes		<u>Agency</u>
	<u>Assets</u>	
1110	Cash and cash equivalents	\$ 88,687
1000		<u>\$ 88,687</u>
	Total Assets	<u>\$ 88,687</u>
	<u>Liabilities</u>	
	Current liabilities:	
2190	Due to student groups	\$ 88,687
2000		<u>\$ 88,687</u>
	Total Liabilities	<u>\$ 88,687</u>

See Notes to Financial Statements.

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HITCHCOCK INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

For the Year Ended August 31, 2019

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 a board 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 basic 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.

B. Government-Wide Financial Statements

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

C. Basis of Presentation – Government-Wide Financial Statements

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

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

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category – governmental and fiduciary – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2019

The District reports the following governmental funds:

General Fund

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

Debt Service Fund

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

Capital Projects Fund

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

Special Revenue Funds

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

Fiduciary Funds

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

Agency Funds

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

During the course of operations, the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column.

HITCHCOCK INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2019

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

E. Measurement Focus and Basis of Accounting

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

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

1. Cash and Cash Equivalents

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

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2019

2. Investments

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposit, are reported at cost.

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 Government 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
- Government investment pools and commercial paper

3. Inventories and Prepaid Items

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

4. Capital Assets

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

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2019

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension/other postemployment benefits (OPEB) activities are amortized over the average of the expected service lives of pension/OPEB plan members, except for the net differences between the projected and actual investment earnings on the pension/OPEB plan assets, which are amortized over a period of five years.
- For employer pension/OPEB plan contributions that were made subsequent to the measurement date through the end of the District's fiscal year, the amount is deferred and recognized as a reduction to the net pension/OPEB liability during the measurement period in which the contributions were made.
- A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

At the fund level, the District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

6. Long-Term Obligations

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

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

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

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2019

7. Net Position Flow Assumption

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

8. Fund Balance Flow Assumptions

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

9. Fund Balance Policies

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

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted fund balance.

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

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

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2019

10. Estimates

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

11. Data Control Codes

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

12. Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities, and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

13. Other Postemployment Benefits

The fiduciary net position of TRS Texas Public School Retired Employees Group Insurance Program ("TRS-Care") has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes, for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, and information about assets, liabilities, and additions to/deductions from TRS-Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

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INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2019

2. Property Taxes

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

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

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

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

A. Expenditures in Excess of Appropriations

For the year ended August 31, 2019, expenditures exceeded appropriations at the legal level of control for the following expenditures in the general fund and debt service fund.

General fund		
Instruction	\$	329,607
Plant maintenance and operations		7,583
Community services		4,395
Security and monitoring services		2,720
Debt service fund		
Interest and fiscal charges	\$	118,247

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2019

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

At August 31, 2019, the District's investments are as follows:

Investment Type	Amount	Weighted Average Maturity
Certificates of deposit	\$ 102,620	0.38
External investment pools:		
Lone Star	1,495,271	0.00
TexSTAR	215,472	0.00
Texas CLASS	1,081,534	0.00
TexasTERM	37,684	0.00
Total Value	<u><u>\$ 2,932,581</u></u>	
Portfolio weighted average maturity		0.02

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 August 31, 2019, checking and time deposits were entirely insured or collateralized with securities as provided by State laws and regulations and FDIC insurance.

Credit risk. The District's policy requires that investment pools must be rated no lower than 'AAA' or 'AAA-m'. Bankers' acceptances must be issued in the United States and carry a rating of 'A1'/'P1' as provided by two of the top nationally recognized rating agencies. As of August 31, 2019, the District's investments in Lone Star, TexStar, Texas CLASS and TexasTERM were rated 'AAA' by Standard & Poor's.

Custodial credit risk – investments. For an investment, this is the risk that 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 in the event of the failure of the counterparty. The District's investment policy requires that it will seek to safekeep securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, shall be conducted on a delivery versus payment basis or commercial book entry system as utilized by the Federal Reserve and shall be protected through the use of a third-party custody/safekeeping agent.

Interest rate risk. In accordance with its investment policy, the District manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

Lone Star

The Lone Star Investment Pool ("Lone Star") is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. Lone Star is administered by First Public, a subsidiary of the Texas Associate of School Boards, with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the Board of Trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star

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INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2019

has established an advisory board composed of both Lone Star members and nonmembers. Lone Star is rated 'AAA' by Standard and Poor's and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The District is invested in the Government Overnight Fund and Corporate Overnight fund of Lone Star which seeks to maintain a net asset value of \$1.00. Lone Star has 3 different funds: Government Overnight, Corporate Overnight, and Corporate Overnight Plus. Government Overnight, Corporate Overnight, and Corporate Overnight Plus maintain a net asset value of \$1.00.

TexSTAR

The Texas Short-Term Asset Reserve Fund (TexSTAR) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services.

TexSTAR is measured at amortized cost. TexSTAR's strategy is to seek preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. The District has no unfunded commitments related to TexSTAR. TexSTAR has a redemption notice period of one day and may redeem daily. TexSTAR's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national or state emergency that affects TexSTAR's liquidity. TexSTAR is rated "AAA" by Standard & Poor's.

Texas CLASS

The Texas Cooperative Liquid Assets Securities System Trust – Texas (CLASS) is a public funds investment pool under the Act. CLASS is created under an amended and restated trust agreement, dated as of December 14, 2011 (the "Agreement"), among certain Texas governmental entities investing in CLASS (the "Participants"), with Cutwater Investor Services Corporation as program administrator and Wells Fargo Bank Texas, NA as custodian. CLASS is not SEC registered and is not subject to regulation by the State of Texas. Under the Agreement, however, CLASS is administered and supervised by a seven-member board of trustees (the "Board"), whose members are investment officers of the Participants, elected by the Participants for overlapping two-year terms. In the Agreement and by resolution of the Board, CLASS has contracted with Cutwater Investors Service Corporation to provide for the investment and management of the public funds of CLASS. Separate financial statements for CLASS may be obtained from CLASS' website at www.texasclass.com. CLASS is rated "AAA" by Standard & Poor's.

TexasTERM

The TexasTERM Local Government Investment Pool (TexasTERM) was created in 2000 to allow Texas local governments and school districts to pool their funds for investment. TexasTERM is directed by an advisory board of experienced local government officials, finance directors, and treasurers and is managed by a team of industry leaders that are focused on providing professional investment services to investors. TexasTERM has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Act. Finally, TexasTERM is rated "AAA" by Standard & Poor's.

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2019

B. Capital Assets

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

Governmental Activities:	Beginning Balances	Increases	(Decreases)	Ending Balances
Capital assets not being depreciated:				
Land	\$ 1,674,919	\$ -	\$ -	\$ 1,674,919
Construction in progress	1,459,836	121,486	(1,581,322)	-
Total capital assets not being depreciated	<u>3,134,755</u>	<u>121,486</u>	<u>(1,581,322)</u>	<u>1,674,919</u>
Other capital assets:				
Buildings and improvements	55,636,927	1,683,983	-	57,320,910
Furniture and equipment	993,364	47,125	-	1,040,489
Vehicles	2,172,013	242,056	-	2,414,069
Total other capital assets	<u>58,802,304</u>	<u>1,973,164</u>	<u>-</u>	<u>60,775,468</u>
Less accumulated depreciation for:				
Buildings and improvements	(19,535,861)	(1,411,022)	-	(20,946,883)
Furniture and equipment	(738,201)	(57,839)	-	(796,040)
Vehicles	(1,641,131)	(95,114)	-	(1,736,245)
Total accumulated depreciation	<u>(21,915,193)</u>	<u>(1,563,975)</u>	<u>-</u>	<u>(23,479,168)</u>
Other capital assets, net	<u>36,887,111</u>	<u>409,189</u>	<u>-</u>	<u>37,296,300</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 40,021,866</u>	<u>\$ 530,675</u>	<u>\$ (1,581,322)</u>	<u>38,971,219</u>
			Less associated debt	33,757,657
			Plus deferred charge on refunding	1,291,385
			Net Investment in Capital Assets	<u>\$ 6,504,947</u>

Depreciation was charged to governmental functions as follows:

	Governmental Activities
11 Instruction	\$ 924,245
34 Student (pupil) transportation	324,714
35 Food service	28,780
36 Co-curricular/extracurricular activities	84,932
41 General administration	7,351
51 Plant maintenance and operations	192,232
61 Community services	1,721
Total Depreciation Expense	<u>\$ 1,563,975</u>

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2019

C. Long-Term Liabilities

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 general and debt service funds to liquidate governmental long-term liabilities.

Governmental Activities:	Original Issue	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds, notes and other payables:						
Series 2011A-0.71% to 5.45%	\$ 6,626,208	\$ 5,285,674	\$ -	\$ (287,039)	\$ 4,998,635	\$ 276,090
Series 2014-3.00%	8,660,000	8,070,000	-	(130,000)	7,940,000	135,000
Series 2015-2.00% to 4.00%	8,830,000	8,540,000	-	(90,000)	8,450,000	90,000
Series 2016-3.00% to 5.00%	1,635,000	1,455,000	-	(90,000)	1,365,000	95,000
Series 2018 -3.00% to 5.00%	3,830,000	3,775,000	-	(715,000)	3,060,000	750,000
Direct borrowing/Private placement						
Series 2005 QZAB Notes-0%	1,221,872	162,916	-	(81,458)	81,458	81,458
Building Improvement						
Loan 2014-2.80%	2,775,014	2,144,207	-	(168,973)	1,975,234	173,737
Series 2010-3.85%	500,000	270,000	-	(35,000)	235,000	35,000
Series 2011Q-5.33%	5,400,000	3,865,000	-	(480,000)	3,385,000	480,000
	<u>39,478,094</u>	<u>33,567,797</u>	<u>-</u>	<u>(2,077,470)</u>	<u>31,490,327</u>	<u>* 2,116,285</u>
Other Liabilities:						
Accreted interest	-	120,125	9,384	-	129,509	-
Net pension liability	-	3,882,397	3,572,041	-	7,454,438	-
Net OPEB liability	-	7,141,549	1,673,156	-	8,814,705	-
Unamortized premium	-	2,281,745	-	(143,924)	2,137,821	*
	<u>-</u>	<u>13,425,816</u>	<u>5,254,581</u>	<u>(143,924)</u>	<u>18,536,473</u>	<u>-</u>
Total Governmental Activities	\$ 39,478,094	\$ 46,993,613	\$ 3,581,425	\$ (2,221,394)	\$ 50,026,800	\$ 2,116,285

Long-term liabilities due in more than one year \$ 47,910,515

Debt associated with capital assets \$ 33,757,657 *

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, 2019

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

Year Ended August 31	General Obligation Bonds		
	Principal	Interest	Total Requirements
2020	\$ 1,346,090	\$ 893,898	\$ 2,239,988
2021	1,370,843	862,421	2,233,264
2022	1,397,772	829,291	2,227,063
2023	1,427,548	797,115	2,224,663
2024	1,465,737	765,751	2,231,488
2025-2029	7,910,906	4,908,859	12,819,765
2030-2034	9,602,971	3,877,024	13,479,995
2035-2038	1,291,768	1,805,828	3,097,596
	<u>\$ 25,813,635</u>	<u>\$ 14,740,187</u>	<u>\$ 40,553,822</u>

Year Ended August 31	Private Placement Loan/Tax Notes		
	Principal	Interest	Total Requirements
2020	\$ 255,195	\$ 54,099	\$ 309,294
2021	178,636	49,200	227,836
2022	183,673	44,163	227,836
2023	188,851	38,985	227,836
2024	194,176	33,660	227,836
2025-2029	1,056,161	83,019	1,139,180
	<u>\$ 2,056,692</u>	<u>\$ 303,126</u>	<u>\$ 2,359,818</u>

Year Ended August 31	Private Placement Bonds		
	Principal	Interest	Total Requirements
2020	\$ 515,000	\$ 176,002	\$ 691,002
2021	515,000	149,070	664,070
2022	525,000	121,909	646,909
2023	525,000	94,519	619,519
2024	525,000	67,129	592,129
2025-2029	1,015,000	52,567	1,067,567
	<u>\$ 3,620,000</u>	<u>\$ 661,196</u>	<u>\$ 4,281,196</u>

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

	Governmental Activities
Assets:	
Building improvements	\$ 2,775,014
Less: Accumulated depreciation	(416,252)
	<u>\$ 2,358,762</u>

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2019

D. Interfund Transactions

The interfund balances were as follows:

	Due To	Due From
General fund	\$ 1,409,170	\$ 389,194
National school breakfast and lunch fund	-	258,218
Nonmajor governmental funds	10,860	319,719
Special education Co-op	-	383,358
Debt service fund	378,334	-
Special education Coop-autism	-	447,875
Total	\$ 1,798,364	\$ 1,798,364

	Transfer in	Transfer out
General fund	\$ -	\$ 47,114
National school breakfast and lunch fund	47,114	-
Total	\$ 47,114	\$ 47,114

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year. Amounts transferred from the general fund to the national school breakfast and lunch fund were to supplement revenues for the year.

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

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NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2019

(IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, it could result in a substantial liability to the District. The District has engaged an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

C. Defined Benefit Pension Plan

Teacher Retirement System

Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by TRS. TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one-half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by TRS.

Pension Plan Fiduciary Net Position

Detailed information about the TRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report (CAFR) that includes financial statements and Required Supplementary Information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3% (multiplier) times the average of the 5 highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the 3 highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule.

There are no automatic post-employment benefit changes, including automatic cost-of-living adjustments (COLAs). Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in Plan Description above.

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2019

Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of TRS during the fiscal year. Texas Government Code Section 821.006 prohibits benefit improvements if, as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 through 2017. The 85th Texas Legislature, General Appropriations Act (GAA) affirmed that the employer contribution rates for fiscal years 2018 and 2019 would remain the same.

Contribution Rates

	<u>2018</u>	<u>2019</u>
Member	7.7%	7.7%
NECE (State)	6.8%	6.8%
Employers	6.8%	6.8%

	<u>Measurement Fiscal Year</u>	
	<u>2018</u>	<u>2019</u>
Employer contribution	\$ 456,232	\$ 468,068
Member contribution	\$ 967,845	\$ 987,565
NECE on-behalf contribution	\$ 549,868	\$ 575,028

Contributors to TRS include members, employers, and the State of Texas (the "State") as the only non-employer contributing entity (NECE). The State is the employer for senior colleges, medical schools, and state agencies, including TRS. In each respective role, the State contributes to TRS in accordance with state statutes and the GAA.

As the NECE for public education and junior colleges, the State contributes to TRS an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of TRS during that fiscal year reduced by the amounts described below, which are paid by the employers. Employers (public school, junior college, other entities, or the State as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational, and general or local funds.

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INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2019

- When the employing district is a public junior college or junior college district, the employer shall contribute to TRS an amount equal to 50% of the state contribution rate for certain instructional or administrative employees and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, there are two additional surcharges to which an employer is subject:

- When employing a retiree of TRS, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school does not contribute to the Federal Old-Age, Survivors, and Disability Insurance Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees and 100% of the state contribution rate for all other employees.

Actuarial Assumptions

The total pension liability (TPL) in the August 31, 2017 actuarial valuation rolled forward to August 31, 2018 was determined using the following actuarial assumptions:

Valuation date	August 31, 2017 rolled forward to August 31, 2018
Actuarial cost method	Individual entry age normal
Asset valuation method	Market value
Single discount rate	6.907%
Long-term expected investment rate of return	7.25%
Municipal bond rate	3.69% Source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index"
Last year ending August 31 in projection period (100 years)	2116
Inflation	2.3%
Salary increases including inflation	3.05% to 9.05%
Benefit changes during the year	None
Ad hoc postemployment benefit changes	None

The actuarial methods and assumptions are primarily based on a study of actual experience for the four-year period ending August 31, 2017 and adopted in July 2018.

Discount Rate

The single discount rate used to measure the TPL was 6.907%. The single discount rate was based on the expected rate of return on pension plan investments of 7.25% and a municipal bond rate of 3.69%. The projection of cash flows used to determine the discount rate assumed that contributions from TRS members and those of the contributing employers and the NECE are made at the statutorily required rates. Based on those assumptions, TRS's fiduciary net position was sufficient to finance the benefit payments until the year 2069. As a result, the long-term expected rate of return

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2019

on pension plan investments was applied to projected benefit payments through the year 2069, and the municipal bond rate was applied to all benefit payments after that date. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Best estimates of geometric real rates of return for each major asset class included in TRS's target asset allocation as of August 31, 2018 are summarized below:

Teacher Retirement System of Texas Asset Allocation and Long-Term Expected Real Rate of Returns AS of August 31, 2018

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate Return	Long- Term Expected Portfolio Real Rate of Return
Global			
U.S.	18.0%	5.7%	1.0%
Non-U.S. Developed	13.0%	6.9%	0.9%
Emerging Markets	9.0%	8.9%	0.8%
Directional Hedge Funds	4.0%	3.5%	0.1%
Private Equity	13.0%	10.2%	1.3%
Stable Value			
U.S. Treasuries	11.0%	1.1%	0.1%
Absolute Return	0.0%	0.0%	0.0%
Stable Value Hedge Funds	4.0%	3.1%	0.1%
Cash	1.0%	-0.3%	0.0%
Real Return			
Global Inflation Linked Bond	3.0%	0.7%	0.0%
Real Assets	14.0%	5.2%	0.7%
Energy and National Resour	5.0%	7.5%	0.4%
Commodities	0.0%	0.0%	0.0%
Risk Parity			
Risk Parity	5.0%	3.7%	0.2%
Inflation Expection	0.0%		2.3%
Alpha	0.0%		-0.8%
Total	<u>100%</u>		<u>7.1%</u>

*The Expected Contribution to Returns incorporates the volatility from the conversion between Arithmetic and Geometric mean returns.

HITCHCOCK INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2019

Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability (NPL) if the discount rate used was 1% less than and 1% greater than the discount rate that was used (6.907%) in measuring the NPL.

	1% Decrease in Discount Rate (5.907%)	Discount Rate (6.907%)	1% Increase in Discount Rate (7.907%)
District's proportionate share of the net pension liab	\$ 11,250,535	\$ 7,454,438	\$ 4,381,273

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

At August 31, 2019, the District reported a liability of \$7,454,438 for its proportionate share of the TRS's NPL. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the NPL, the related State support, and the total portion of the NPL that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 7,454,438
State's proportionate share that is associated with the District	8,989,964
Total	\$ 16,444,402

The NPL was measured as of August 31, 2017 and rolled forward to August 31, 2018 and the TPL used to calculate the NPL was determined by an actuarial valuation as of August 31, 2017 rolled forward to August 31, 2018. The employer's proportion of the NPL was based on the District's contributions to TRS to the contributions of all employers to TRS for the period September 1, 2017 through August 31, 2018.

At August 31, 2018, the employer's proportion of the collective NPL was 0.013543%, which was an increase of 0.001401% from its proportion measured as of August 31, 2017.

Changes Since the Prior Actuarial Valuation – The following were changes to the actuarial assumptions or other inputs that affected measurement of the TPL since the prior measurement period.

- The TPL as of August 31, 2018 was developed using a roll-forward method from the August 31, 2017 valuation.
- Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study performed for TRS for the period ending August 31, 2017.
- Economic assumptions, including rates of salary increase for individual participants, were updated based on the same experience study.
- The discount rate changed from 8.000% as of August 31, 2017 to 6.907% as of August 31, 2018.
- The long-term assumed rate of return changed from 8.00% to 7.25%.

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2019

- The change in the long-term assumed rate of return, combined with the change in the single discount rate, was the primary reason for the increase in the NPL.

There were no changes of benefit terms that affected measurement of the TPL during the measurement period.

For the year ended August 31, 2019, the District recognized pension expense of \$889,767 and revenue of \$889,767 for support provided by the State.

At August 31, 2019, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 46,465	\$ 182,902
Changes in actuarial assumptions	2,687,684	83,990
Difference between projected and actual investment earnings	-	141,442
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	1,096,440	170
Contributions paid to TRS subsequent to the measurement date	468,068	-
Total	\$ 4,298,657	\$ 408,504

The net amounts of the District's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended August 31:	Pension Expense
2020	\$ 881,285
2021	583,631
2022	503,548
2023	585,551
2024	525,280
Thereafter	342,790
Total	\$ 3,422,085

Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2019, 2018, and 2017, the subsidy payments received by TRS-Care on behalf of the District were \$48,656, \$34,499, and \$32,109, respectively.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2019

D. Defined Other Postemployment Benefit Plan

Plan Description

The District participates in TRS-Care. It is a multiple-employer, cost-sharing defined benefit OPEB plan that has a special funding situation. TRS-Care is administered through a trust by the TRS Board of Trustees (the "Board"). It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

OPEB Plan Fiduciary Net Position

Detailed information about the TRS-Care's fiduciary net position is available in the separately-issued TRS Comprehensive Annual Financial Report that includes financial statements and Required Supplementary Information. That report may be obtained on the Internet at www.trs.state.tx.us/about/documents/cafr.pdf#CAFR; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512)542-6592.

Components of the net OPEB liability of TRS-Care as of August 31, 2018 are as follows:

Total OPEB liability	\$ 50,729,490,103
Less: plan fiduciary net position	<u>798,574,633</u>
Net OPEB Liability	<u>\$ 49,930,915,470</u>
Net position as a percentage of total OPEB liability	1.57%

Benefits Provided

TRS-Care provides a basic health insurance coverage, TRS-Care 1 (the "Basic Plan") at no cost to all retirees from public schools, charter schools, regional education service centers, and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits, TRS-Care 2 and TRS-Care 3 (the "Optional Health Insurance"). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least ten years of service credit in TRS. The Board is granted the authority to establish basic and optional group insurance coverage for participants, as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic postemployment benefit changes, including automatic cost-of-living adjustments.

HITCHCOCK INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2019

The premium rates for the Optional Health Insurance are based on years of service of the member. The schedule below shows the monthly rates for a retiree with and without Medicare coverage:

TRS-Care Plan Premium Rates				
Effective January 1, 2018 - December 31, 2018				
	Medicare		Non-Medicare	
Retiree*	\$	135	\$	200
Retiree and spouse	\$	529	\$	689
Retiree and children	\$	468	\$	408
Retiree and family	\$	1,020	\$	999

**or surviving spouse*

Contributions

Contribution rates for TRS-Care are established in state statute by the Texas Legislature and there is no continuing obligation to provide benefits beyond each fiscal year. TRS-Care is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the State, active employees, and school districts based upon public school district payroll. The TRS Board does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the State's contribution rate, which is 1.25% of the employee's salary. Section 1575.203 establishes the active employee's rate, which is 0.75% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to TRS-Care by type of contributor:

Contribution Rates		
	Fiscal Year	
	2018	2019
Active employee	0.65%	0.65%
NECE (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private funding remitted by emp.	1.25%	1.25%

	Measurement Fiscal Year	
	2018	2019
Employer contribution	\$ 120,230	\$ 131,456
Member contribution	\$ 81,701	\$ 83,366
NECE on-behalf contributions	\$ 131,258	\$ 160,319

In addition to the employer contributions listed above, there is an additional surcharge to which all TRS employers are subject (regardless of whether or not they participate in TRS-Care). When employers hire a TRS retiree, they are required to pay a monthly surcharge of \$535 per retiree to TRS-Care.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2019

TRS-Care received supplemental appropriations from the State as the NECE in the amount of \$182.6 million in fiscal year 2018. The 85th Texas Legislature, House Bill 30 provided an additional \$212 million in one-time, supplemental funding for the fiscal year 2018-2019 biennium to continue to support TRS-Care. This was also received in fiscal year 2018 bringing the total appropriations received in fiscal year 2018 to \$394.6 million.

Actuarial Assumptions

The total OPEB liability in the August 31, 2017 actuarial valuation was rolled forward to August 31, 2018. The actuarial valuation was determined using the following actuarial assumptions:

- A change was made in the measurement date of the total OPEB liability for the TRS 2018 fiscal year. The actuarial valuation was performed as of August 31, 2017. Update procedures were used to roll forward the total OPEB liability to August 31, 2018. This was the first year the roll-forward procedures were used.
- The actuarial valuation of TRS-Care is similar to the actuarial valuations performed for the TRS pension plan, except that the OPEB valuation is more complex. All of the demographic assumptions, including rates of retirement, termination, and disability; and most of the economic assumptions, including general inflation, salary increases, and general payroll growth, used in the OPEB valuation were identical to those used in the respective TRS pension valuation.
- The active mortality rates were based on 90% of the RP-2014 Employee Mortality Tables for males and females, with full generational mortality using Scale BB. The post-retirement mortality rates were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the most recently published scale.
- Initial medical trend rates of 107.74% and 9.00% for Medicare retirees and an initial medical trend rate of 6.75% for non-Medicare retirees were used. The initial prescription drug trend rate was 11.00% for all retirees. The first-year trend rate increase for the Medicare Advantage (medical) premiums reflects the anticipated return of the Health Insurer Fee (HIF) in 2020.

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation that was rolled forward to August 31, 2018:

- | | |
|----------------------------------|----------------------------|
| 1. Rates of Mortality | 5. General Inflation |
| 2. Rates of Retirement | 6. Wage Inflation |
| 3. Rates of Termination | 7. Expected Payroll Growth |
| 4. Rates of Disability Incidence | |

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2019

Additional actuarial methods and assumptions are as follows:

Valuation date	8/31/2017 rolled forward to 8/31/2018
Actuarial cost method	Individual entry age normal
Inflation	2.30%
Single discount rate	3.69%. Sourced from fixed income municipal bonds with 20 years to maturity that include only federal tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index" as of August 31, 2018.
Aging factors	Based on plan-specific experience
Election rates	Normal retirement: 70% participation prior to age 65 and 75% participation after age 65.
Expenses	Third-party administrative expenses related to the delivery of healthcare benefits are included in the age-adjusted claims costs.
Projected salary increases*	3.05% to 9.05%, including inflation
Ad hoc postemployment benefit changes	None

The impact of the Cadillac Tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.5%.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25-basis point addition to the long-term trend rate assumption.

Discount Rate

A single discount rate of 3.69% was used to measure the total OPEB liability. There was an increase of 0.27% in the discount rate since the previous year. Because TRS-Care is essentially a "pay-as-you-go" plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the NECE are made at the statutorily required rates. Based on those assumptions, TRS-Care's fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability.

HITCHCOCK INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2019

Sensitivity of the Net OPEB Liability

Discount Rate Sensitivity Analysis – The following schedule shows the impact of the net OPEB liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used in measuring the net OPEB liability:

	1% Decrease in Discount Rate (2.69%)	Current Single Discount Rate (3.69%)	1% Increase in Discount Rate (4.69%)
District's proportionate share of net OPEB liability	\$ 10,492,527	\$ 8,814,705	\$ 7,487,439

Healthcare Cost Trend Rates Sensitivity Analysis – The following presents the net OPEB liability of TRS-Care using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is 1% less than or one % higher than the assumed healthcare cost trend rate:

	1% Decrease in Healthcare Cost Trend Rate	Current Healthcare Cost Trend Rate	1% Increase in Healthcare Cost Trend Rate
District's proportionate share of net OPEB liability	\$ 7,320,756	\$ 8,814,705	\$ 10,782,268

OPEB Liability, OPEB Expense, and Deferred Outflows/Inflows of Resources Related to OPEB

At August 31, 2019, the District reported a liability of \$8,814,705 for its proportionate share of TRS-Care's net OPEB liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 8,814,705
State's proportionate share that is associated with the District	9,513,840
Total	\$ 18,328,545

The net OPEB liability was measured as of August 31, 2017 and rolled forwarded to August 31, 2018 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's contributions to TRS-Care relative to the contributions of all employers to TRS-Care for the period September 1, 2017 through August 31, 2018.

At August 31, 2018 measurement date, the District's proportion of the collective net OPEB liability was 0.0176538%, compared to 0.0164225% as of August 31, 2017.

Changes Since the Prior Actuarial Valuation

The following were changes to the actuarial assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period:

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2019

- Adjustments were made for retirees that were known to have discontinued their healthcare coverage in fiscal year 2018. This change increased the total OPEB liability.
- The healthcare trend rate assumption was updated to reflect the anticipated return of the HIF in 2020. This change increased the total OPEB liability.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the total OPEB liability.
- The discount rate was changed from 3.42% as of August 31, 2017 to 3.69% as of August 31, 2018. This change lowered the total OPEB liability by \$2.3 billion.

The following are changes in benefit terms since the prior measurement date effective September 1, 2017 by the 85th Texas Legislature:

- Created a high-deductible health plan that provides a zero cost for generic prescriptions for certain preventive drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017 and are not eligible to enroll in Medicare.
- Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare-eligible participants.
- Allowed TRS-Care to provide other appropriate health benefit plans to address the needs of enrollees eligible for Medicare.
- Allowed eligible retirees and their eligible dependents to enroll in TRS-Care when the retiree reaches 65 years of age, rather than waiting for the next enrollment period.
- Eliminated free coverage under TRS-Care, except for certain disability retirees enrolled during plan years 2018 through 2021, requiring members to contribute \$200 per month toward their health insurance premiums.

For the year ended August 31, 2019, the District recognized OPEB expense of \$346,056 and revenue of \$346,056 for support provided by the State.

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended August 31, 2019

At August 31, 2019, the District reported its proportionate share of TRS-Care's deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 467,764	\$ 139,109
Changes in actuarial assumptions	147,094	2,648,313
Differences between projected and actual investment earnings	1,542	-
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	675,048	-
Contributions paid to TRS subsequent to the measurement date	131,456	-
Total	\$ 1,422,904	\$ 2,787,422

The net amounts of the District's balances of deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ended August 31	OPEB Expense
2020	\$ (262,949)
2021	(262,949)
2022	(262,949)
2023	(263,241)
2024	(263,407)
Thereafter	(180,479)
	\$ (1,495,974)

E. Employee Health Care Coverage

During the year ended August 31, 2019, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$275 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District and the insurer is renewable September 1, 2019 and terms of coverage and premiums costs are included in the contractual provisions.

F. Workers' Compensation Insurance

During the year ended August 31, 2019, the District met its statutory workers' compensation obligations through participation in the Deep East Texas Self-Insurance Fund (the "Fund"). The District purchased workers' compensation coverage through the Fund, a public entity risk pool, which is self-sustained through member contributions. The Fund reinsured to statutory limits through commercial companies for claims in excess of \$850,000 for the 2018-2019 fiscal year. The Fund contracts with independent actuaries to determine the adequacy of reserves and fully funds those reserves.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2019

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

G. Unemployment Compensation

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

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

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2018 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 services 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 and expenditures of the SSA are summarized below:

<u>Member Districts</u>	<u>Expenditures</u>
Hitchcock ISD	\$ 170,428
Damon ISD	67,630
Danbury ISD	91,301
Needville ISD	346,942
	<u>\$ 676,301</u>

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2019

I. Restatement

The District has restated beginning net position for governmental activities and fund balance for the general fund as a result of interfund activity as noted below:

	<u>Governmental Activities</u>	<u>General Fund</u>
Prior year ending net position/fund balance as reported	\$ (638,573)	\$ 3,304,442
Interfund payable	<u>185,434</u>	<u>185,434</u>
New beginning net position/fund balance as reported	<u>\$ (453,139)</u>	<u>\$ 3,489,876</u>

REQUIRED SUPPLEMENTARY INFORMATION

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET TO ACTUAL - GENERAL FUND - EXHIBIT G-1

For the Year Ended August 31, 2019

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
		Original	Final		
<u>Revenues</u>					
5700	Local and intermediate sources	\$ 7,765,429	\$ 7,767,429	\$ 7,374,158	\$ (393,271)
5800	State program revenues	7,627,008	7,893,486	7,808,288	(85,198)
5900	Federal program revenues	681,920	681,920	661,600	(20,320)
5020	Total Revenues	16,074,357	16,342,835	15,844,046	(498,789)
<u>Expenditures</u>					
Current:					
0011	Instruction	7,652,762	7,915,083	8,244,690	(329,607) *
0012	Instructional resources				
0012	and media services	160,242	151,322	146,247	5,075
0013	Curriculum and instructional				
0013	staff development	306,575	291,440	282,129	9,311
0021	Instructional leadership	110,452	109,096	107,680	1,416
0023	School leadership	1,138,488	1,126,352	1,065,555	60,797
0031	Guidance, counseling,				
0031	and evaluation services	433,573	380,577	337,596	42,981
0033	Health services	190,319	222,236	220,986	1,250
0034	Student (pupil) transportation	992,557	994,314	973,759	20,555
0035	Food services	8,500	11,586	11,586	-
0036	Extracurricular activities	706,985	708,885	691,093	17,792
0041	General administration	962,788	1,079,925	1,079,889	36
0051	Plant maintenance and operations	2,329,281	2,398,724	2,406,307	(7,583) *
0052	Security and monitoring services	500,817	403,508	406,228	(2,720) *
0053	Data processing services	361,791	306,506	301,602	4,904
0061	Community services	4,200	2,505	6,900	(4,395) *
0071	Debt service	251,041	248,984	248,981	3
0072	Interest and fiscal charges	61,834	61,834	61,834	-
0093	Shared services arrangements	210,000	261,987	261,987	-
0095	Juvenile justice programs	80,000	64,279	64,277	2
0099	Other intergovernmental charges	79,888	71,328	71,326	2
6030	Total Expenditures	16,542,093	16,810,471	16,990,652	(180,181)
1100	(Deficiency) of Revenues				
1100	(Under) Expenditures	(467,736)	(467,636)	(1,146,606)	(678,970)
<u>Other Financing Sources (Uses)</u>					
7915	Transfer (out)	-	-	(47,114)	(47,114)
7080	Total Other Financing (Uses)	-	-	(47,114)	(47,114)
1200	Net Change in Fund Balance	\$ (467,736)	\$ (467,636)	(1,193,720)	\$ (726,084)
0100	Beginning fund balance			3,489,876	
3000	Ending Fund Balance			\$ 2,296,156	

Notes to Required Supplementary Information:

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

2.* Expenditures exceeded appropriations at the legal level of control.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS (TRS) - EXHIBIT G-2
For the Year Ended August 31, 2019

	Measurement Year*			
	2018	2017	2016	2015
District's proportion of the net pension liability (asset)	0.0135431%	0.0121421%	0.0119748%	0.0113482%
District's proportionate share of the net pension liability (asset)	\$ 7,454,438	\$ 3,882,397	\$ 4,525,090	\$ 4,011,438
State's proportionate share of the net pension liability (asset) associated with the District	8,989,964	4,843,116	5,528,933	5,279,053
Total	<u>16,444,402</u>	<u>8,725,513</u>	<u>\$ 10,054,023</u>	<u>\$ 9,290,491</u>
District's covered payroll**	\$ 12,569,413	\$ 11,026,005	\$ 10,302,269	\$ 9,901,585
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	59.31%	35.21%	43.92%	40.51%
Plan fiduciary net position as a percentage of the total pension liability	73.74%	82.17%	78.00%	78.43%

* Only five years' worth of information is currently available.

** As of the measurement date.

Notes to Required Supplementary Information:

Changes in Assumptions

Demographic assumptions including post-retirement mortality, termination rates, and rates of retirement were updated based on the experience study.

Economic assumptions including rates of salary increases for individual participants was updated based on the same experience study.

The discount rate changed from 8.0 percent as of August 31, 2017 to 6.907 percent as of August 31, 2018.

The long-term assumed rate of return changed from 8.0 percent to 7.25 percent.

The change in the long-term assumed rate of return combined with the change in the single discount rate was the primary reason for the increase in the net pension liability.

Changes in Benefits

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

<u>Measurement Year*</u>
<u>2014</u>
0.0075094%

\$	2,005,864
----	-----------

	<u>4,523,365</u>
--	------------------

\$	<u><u>6,529,229</u></u>
----	-------------------------

\$	8,913,419
----	-----------

22.50%

83.25%

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS (TRS)-EXHIBIT G-3
For the Year Ended August 31, 2019

	Fiscal Year*			
	2019	2018	2017	2016
Contractually required contribution	\$ 468,068	\$ 455,462	\$ 395,421	\$ 376,090
Contributions in relation to the contractually required contribution	468,068	455,462	395,421	376,090
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered employee payroll	\$ 12,825,518	\$ 12,569,413	\$ 11,026,005	\$ 10,302,269
Contributions as a percentage of covered payroll	3.65%	3.62%	3.59%	3.65%

*Only six years' of information is currently available.

Fiscal Year*	
2015	2014
\$ 319,786	\$ 190,383
319,786	190,383
\$ -	\$ -
\$ 9,901,585	\$ 8,913,419
3.23%	2.14%

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HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET OPEB LIABILITY
TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES
GROUP INSURANCE PROGRAM ("TRS-CARE") - EXHIBIT G-4
For the Year Ended August 31, 2019

	Measurement Year*	
	2018	2017
District's proportion of the collective net OPEB liability (asset)	0.0176538%	0.0164225%
District's proportionate share of the collective net OPEB liability (asset)	\$ 8,814,705	\$ 7,141,549
State's proportionate share of the collective net OPEB liability (asset) associated with the District	9,513,840	7,559,240
Total	<u>\$ 18,328,545</u>	<u>\$ 14,700,789</u>
District's covered payroll**	\$ 12,569,413	\$ 11,026,005
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	70.13%	64.77%
Plan fiduciary net position as a percentage of the total OPEB liability	1.57%	0.91%

* Only two years' worth of information is currently available.

Notes to Required Supplementary Information:

Changes in Assumptions: There were changes in assumptions that affected measurement of the total OPEB liability since the prior measurement period.

- Adjustments were made for retirees that were known to have discontinued their healthcare coverage in fiscal year 2018. This change increased the total OPEB liability.
- The healthcare trend rate assumption was updated to reflect the anticipated return of the HIF in 2020. This change increased the total OPEB liability.
- Demographic and economic assumptions were updated based on the experience study performed for TRS for the period ending August 31, 2017. This change increased the total OPEB liability.
- The discount rate was changed from 3.42% as of August 31, 2017 to 3.69% as of August 31, 2018. This change lowered the total OPEB liability by \$2.3 billion.

Changes in Benefits: There were changes in benefits that affected measurement of the total OPEB liability since the prior measurement period.

- Created a high-deductible health plan that provides a zero cost for generic prescriptions for certain preventive drugs and provides a zero premium for disability retirees who retired as a disability retiree on or before January 1, 2017 and are not eligible to enroll in Medicare.
- Created a single Medicare Advantage plan and Medicare prescription drug plan for all Medicare-eligible
- Allowed TRS-Care to provide other appropriate health benefit plans to address the needs of enrollees eligible for Medicare.
- Allowed eligible retirees and their eligible dependents to enroll in TRS-Care when the retiree reaches 65 years of age, rather than waiting for the next enrollment period.
- Eliminated free coverage under TRS-Care, except for certain disability retirees enrolled during plan years 2018 through 2021, requiring members to contribute \$200 per month toward their health insurance premiums.

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HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES
GROUP INSURANCE PROGRAM (TRS-CARE) - EXHIBIT G-5
For the Year Ended August 31, 2019

	Fiscal Year*	
	2019	2018
Statutorily required contributions	\$ 131,456	\$ 120,230
Contributions in relation to the statutorily required contributions	131,456	120,230
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 12,825,518	\$ 12,569,413
Contributions as a percentage of covered payroll	1.02%	0.96%

* Only two years' worth of information is currently available.

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***OTHER SUPPLEMENTARY
INFORMATION***

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2) - EXHIBIT H-1
August 31, 2019

Data Control Codes		205	206	211	244
		Head Start	ESEA Title X Part C	ESEA Title I Part A	Career and Technical Basic Grant
	<u>Assets</u>				
1110	Cash and cash equivalents	\$ 10,775	\$ -	\$ -	\$ -
1240	Due from other governments	110,414	1,109	69,552	-
1260	Due from other funds	-	-	-	-
1000	Total Assets	<u>\$ 121,189</u>	<u>\$ 1,109</u>	<u>\$ 69,552</u>	<u>\$ -</u>
	<u>Liabilities</u>				
2110	Accounts payable	\$ -	\$ -	\$ -	\$ -
2160	Accrued wages payable	-	-	28,781	-
2170	Due to other funds	121,189	1,109	37,822	-
2180	Due to other governments	-	-	-	-
2200	Accrued expenses	-	-	2,949	-
2000	Total Liabilities	<u>121,189</u>	<u>1,109</u>	<u>69,552</u>	<u>-</u>
	<u>Fund Balances</u>				
	Restricted				
3450	Grant funds	-	-	-	-
3470	Capital projects	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 121,189</u>	<u>\$ 1,109</u>	<u>\$ 69,552</u>	<u>\$ -</u>

255	263	289	313	314	315
Title II Part A	Title III Part A	Teacher Incentive	SSA IDEA - Part B Formula	SSA IDEA - Part B Preschool	IDEA Part B Discretionary
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
32,436	-	2,671	128,031	5,543	-
-	-	-	9,649	853	-
<u>\$ 32,436</u>	<u>\$ -</u>	<u>2,671</u>	<u>\$ 137,680</u>	<u>\$ 6,396</u>	<u>-</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2,078	-	-	18,376	1,285	-
29,850	-	2,671	117,519	4,971	-
-	-	-	-	-	-
508	-	-	1,785	140	-
<u>32,436</u>	<u>-</u>	<u>2,671</u>	<u>137,680</u>	<u>6,396</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 32,436</u>	<u>\$ -</u>	<u>\$ 2,671</u>	<u>\$ 137,680</u>	<u>\$ 6,396</u>	<u>\$ -</u>

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2) - EXHIBIT H-1
August 31, 2019

		410	429	480	604
<u>Data Control Codes</u>		<u>Instructional Material</u>	<u>Teacher Mentoring</u>	<u>Education Grant</u>	<u>Capital Projects</u>
<u>Assets</u>					
1110	Cash and cash equivalents	\$ -	\$ -	\$ 1,219	\$ 18
1240	Due from other governments	4,588	-	-	-
1260	Due from other funds	-	-	358	-
1000	Total Assets	<u>\$ 4,588</u>	<u>\$ -</u>	<u>\$ 1,577</u>	<u>\$ 18</u>
<u>Liabilities</u>					
2110	Accounts payable	\$ -	\$ -	\$ 1,219	\$ -
2160	Accrued wages payable	-	-	-	-
2170	Due to other funds	4,588	-	-	-
2180	Due to other governments	-	-	-	-
2200	Accrued expenses	-	-	-	-
2000	Total Liabilities	<u>4,588</u>	<u>-</u>	<u>1,219</u>	<u>-</u>
<u>Fund Balances</u>					
Restricted					
3450	Grant funds	-	-	358	-
3470	Capital projects	-	-	-	18
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>358</u>	<u>18</u>
4000	Total Liabilities and Fund Balances	<u>\$ 4,588</u>	<u>\$ -</u>	<u>\$ 1,577</u>	<u>\$ 18</u>

**Total
Nonmajor
Governmental
Funds**

\$	12,012
	354,344
	10,860
\$	<u>377,216</u>

\$	1,219
	50,520
	319,719
	-
	<u>5,382</u>
	<u>376,840</u>

	358
	18
	<u>376</u>

\$	<u>377,216</u>
----	----------------

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (Page 1 of 2) - EXHIBIT H-2
For the Year Ended August 31, 2019

Data Control Codes		205	206	211	244
		Head Start	ESEA Title X Part C	ESEA Title I Part A	Career and Technical Basic Grant
	Revenues				
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-	-
5900	Federal program revenues	1,412,239	18,581	627,538	11,354
5020	Total Revenues	<u>1,412,239</u>	<u>18,581</u>	<u>627,538</u>	<u>11,354</u>
	Expenditures				
	Current:				
0011	Instruction	844,026	-	594,613	11,354
0013	Curriculum and instructional				
0013	staff development	72,356	-	20,178	-
0023	School leadership	164,833	-	-	-
0031	Guidance, counseling, and				
0031	evaluation services	-	-	-	-
0032	Social work services	102,233	-	-	-
0033	Health services	66,763	-	-	-
0034	Student (pupil) transportation	30,000	3,165	5,000	-
0035	Food services	10,355	-	-	-
0051	Plant maintenance and operations	82,753	-	-	-
0052	Security and monitoring services	1,845	-	-	-
0053	Data processing services	-	-	-	-
0061	Community services	37,075	15,416	7,747	-
0081	Capital outlay	-	-	-	-
6030	Total Expenditures	<u>1,412,239</u>	<u>18,581</u>	<u>627,538</u>	<u>11,354</u>
1100	(Deficiency) of Revenues				
1100	(Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200	Net Change in Fund Balances	-	-	-	-
0100	Beginning fund balances	-	-	-	-
3000	Ending Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

255	263	289	313	314	315
Title II Part A	Title III Part A	Teacher Incentive	SSA IDEA - Part B Formula	SSA IDEA - Part B Preschool	IDEA Part B Discretionary
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
73,302	6,168	65,768	1,142,357	66,476	40,000
73,302	6,168	65,768	1,142,357	66,476	40,000
6,419	5,954	8,432	511,723	48,866	-
66,883	214	6,737	7,142	-	-
-	-	-	-	-	-
-	-	-	623,492	17,610	40,000
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	10,607	-	-	-
-	-	-	-	-	-
-	-	39,992	-	-	-
-	-	-	-	-	-
73,302	6,168	65,768	1,142,357	66,476	40,000
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS (Page 2 of 2) - EXHIBIT H-2
For the Year Ended August 31, 2019

*transfer
to 199*

		410	429	480	604
Data Control Codes		Instructional Material	Teacher Mentoring	Education Grant	Capital Projects
Revenues					
5700	Local and intermediate sources	\$ -	\$ -	\$ 18,312	\$ 408
5800	State program revenues	64,499	700	-	-
5900	Federal program revenues	-	-	-	-
5020	Total Revenues	<u>64,499</u>	<u>700</u>	<u>18,312</u>	<u>408</u>
Expenditures					
Current:					
0011	Instruction	64,499	-	18,312	-
0013	Curriculum and instructional				
0013	staff development	-	700	-	-
0023	School leadership	-	-	-	-
0031	Guidance, counseling, and				
0031	evaluation services	-	-	-	-
0032	Social work services	-	-	-	-
0033	Health services	-	-	-	-
0034	Student (pupil) transportation	-	-	-	-
0035	Food services	-	-	-	-
0051	Plant maintenance and operations	-	-	-	-
0052	Security and monitoring services	-	-	-	-
0053	Data processing services	-	-	-	-
0061	Community services	-	-	-	-
0081	Capital outlay	-	-	-	-
6030	Total Expenditures	<u>64,499</u>	<u>700</u>	<u>18,312</u>	<u>78,781</u>
1100	(Deficiency) of Revenues				<u>78,781</u>
1100	(Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>(78,373)</u>
1200	Net Change in Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>(78,373)</u>
0100	Beginning fund balances	<u>-</u>	<u>-</u>	<u>358</u>	<u>78,391</u>
3000	Ending Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 358</u>	<u>\$ 18</u>

**Total
Nonmajor
Governmental
Funds**

\$	18,720
	65,199
	<u>3,463,783</u>
	<u>3,547,702</u>

2,114,198

174,210
164,833

681,102
102,233
66,763
38,165
10,355
93,360
1,845
39,992
60,238
78,781

3,626,075

(78,373)

(78,373)

78,749

\$ 376

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE - EXHIBIT J-1
For the Year Ended August 31, 2019

Last Ten Years	1		2		3
	Tax Rates				Net Assessed/ Appraised Value For School Tax Purposes
	Maintenance		Debt Service		
2010 and prior	Various		Various		Various
2011	\$	1.0401	\$	0.4000	\$ 493,820,200
2012	\$	1.0400	\$	0.5000	\$ 473,282,662
2013	\$	1.0400	\$	0.5000	\$ 492,474,156
2014	\$	1.0400	\$	0.5000	\$ 496,610,649
2015	\$	1.0400	\$	0.5000	\$ 532,204,805
2016	\$	1.0400	\$	0.5000	\$ 559,176,563
2017	\$	1.0400	\$	0.5000	\$ 598,722,721
2018	\$	1.0400	\$	0.4800	\$ 658,096,551
2019	\$	1.0400	\$	0.4800	\$ 691,492,418
1000 Totals					

10	20	31	32	40	50
Beginning Balance 8/31/18	Current Year's Total Levy	Maintenance Total Collected	Debt Service Total Collected	Entire Year's Adjustments	Ending Balance 8/31/19
\$ 248,735	\$ -	\$ 12,586	\$ 3,064	\$ (35,780)	\$ 197,305
43,217	-	2,331	1,031	(367)	39,488
40,915	-	3,682	1,770	(1,143)	34,320
56,206	-	3,551	1,707	(6,261)	44,687
69,270	-	8,124	3,905	(510)	56,731
79,061	-	13,350	6,418	2,840	62,133
88,508	-	14,912	7,169	5,727	72,154
121,194	-	24,266	11,666	2,598	87,860
278,053	-	86,896	40,105	(20,008)	131,044
-	10,489,544	6,969,786	3,216,824	(380)	302,554
<u>\$ 1,025,159</u>	<u>\$ 10,489,544</u>	<u>\$ 7,139,484</u>	<u>\$ 3,293,659</u>	<u>\$ (53,284)</u>	<u>\$ 1,028,276</u>

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HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION FUND - EXHIBIT J-2

For the Year Ended August 31, 2019

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
		Original	Final		
	<u>Revenues</u>				
5700	Local and intermediate sources	\$ 99,300	\$ 70,567	\$ 70,567	\$ -
5800	State program revenues	5,657	4,682	4,682	-
5900	Federal program revenues	976,393	1,077,825	1,077,825	-
5020	Total Revenues	1,081,350	1,153,074	1,153,074	-
	<u>Expenditures</u>				
0035	Food services	1,077,449	1,200,188	1,200,188	-
6030	Total Expenditures	1,077,449	1,200,188	1,200,188	-
1100	Excess (Deficiency) of Revenues				
1100	Over (Under) Expenditures	3,901	(47,114)	(47,114)	-
	Other Financing Sources (Uses)				
7915	Transfers in	-	-	47,114	47,114
7080	Total Other Financing Sources	-	-	47,114	47,114
1200	Net Change in Fund Balance	3,901	(47,114)	-	47,114
0100	Beginning fund balance	127	127	-	127
3000	Ending Fund Balance	\$ 4,028	\$ (46,987)	\$ -	\$ 47,241

HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND - EXHIBIT J-3

For the Year Ended August 31, 2019

Data Control Codes		Budgeted Amounts		Actual	Variance With Final Budget Positive (Negative)
		Original	Final		
	Revenues				
5700	Local and intermediate sources	\$ 3,164,673	\$ 3,396,551	\$ 3,396,551	\$ -
5800	State program revenues	-	81,748	81,748	-
5900	Federal program revenues	180,460	-	-	-
5020	Total Revenues	<u>3,345,133</u>	<u>3,478,299</u>	<u>3,478,299</u>	<u>-</u>
	Expenditures				
0071	Principal	3,008,239	1,870,576	1,827,039	43,537
0072	Interest and fiscal charges	-	1,009,010	1,127,257	(118,247) *
0073	Bond issuance costs	-	4,800	4,800	-
6030	Total Expenditures	<u>3,008,239</u>	<u>2,884,386</u>	<u>2,959,096</u>	<u>(74,710)</u>
1200	Net Change in Fund Balance	<u>336,894</u>	<u>593,913</u>	<u>519,203</u>	<u>(74,710)</u>
0100	Beginning fund balance	<u>2,495,227</u>	<u>2,495,227</u>	<u>2,495,227</u>	<u>-</u>
3000	Ending Fund Balance	<u>\$ 2,832,121</u>	<u>\$ 3,089,140</u>	<u>\$ 3,014,430</u>	<u>\$ (74,710)</u>

1. * Expenditures exceeded appropriations at the legal level of control.

FEDERAL AWARDS AND OTHER COMPLIANCE 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 FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

February 11, 2020

To the Board of Trustees of
Hitchcock Independent School District:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hitchcock Independent School District (the "District"), as of and for the year ended August 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 11, 2020.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2019.001 that we consider to be a significant deficiency.

Compliance and Other Matters

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

District's Response to Findings

The District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

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

BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

February 11, 2020

To the Board of Trustees of
Hitchcock Independent School District:

Report on Compliance for Each Major Federal Program

We have audited Hitchcock Independent School District's (the "District") compliance with the types of compliance requirements described in the *OMB 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, 2019. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2019.

Report on Internal Control over Compliance

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

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

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

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

BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended August 31, 2019

A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

No prior year findings.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2019

A. SUMMARY OF AUDIT RESULTS

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

<u>CFDA Number</u>	<u>Name of Federal Program</u>
93.600	Head Start

8. The threshold for distinguishing Type A and B programs was \$750,000.
9. The District did qualify as a low-risk auditee.

B. FINDINGS – BASIC FINANCIAL STATEMENT AUDIT

Significant Deficiency:

2019.001 CASH BALANCES AND BANK RECONCILIATIONS

Condition

The District was initially unable to provide a bank reconciliation that agreed with its general ledger cash balance as of August 31, 2019 for the District's operating cash account.

Effect

The District's cash and interfund activity did not reconcile and reflect the actual financial transactions as they occurred during the year.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS, Continued
For the Year Ended August 31, 2019

Cause

The District does not currently utilize the bank reconciliation module available through its financial accounting and reporting software vendor. Instead, the District uses a standalone program in which activity is downloaded and reconciled to the bank statement. Accordingly, it is not clear when the general ledger is out of balance between the reconciliation and the bank statement. Additionally, activity that occurred on the bank statement was not recorded within the District's general ledger accounts.

Criteria

The District should reconcile all cash transactions in accordance with generally accepted accounting principles.

Recommendation

The District should evaluate the cost and implementation of the bank reconciliation module available through the District's financial accounting and reporting software vendor. Alternatively, additional procedures and training should be considered to ensure the bank reconciliation reflects activity on the general ledger. The District should also ensure that all activity occurring at the bank is in agreement with its general ledger.

Management's Corrective Action Plan

The District concurs with this recommendation and will evaluate the bank reconciliation module available through its financial accounting and reporting software vendor.

C. FINDINGS – FEDERAL AWARDS AUDIT

None Noted

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT K-1
For the Year Ended August 31, 2019

(1)	(2)	(2A)	(3)
Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through State Department of Education</i>			
Title I, Part A	84.010	19610101084908	\$ 640,350
Title II, Part A	84.367	19694501084908	74,779
Title IV, Part A	84.424	19680101084908	40,114
Carl D. Perkins Basic Formula	84.048	19420006084908	11,597
Texas Hurricane Homeless Youth	84.938B	19513701084908	5,505
Special Education (IDEA) Cluster:			
IDEA B, Formula	84.027	196600010849086000	1,165,242
IDEA B, Preschool	84.173	196610010849086000	67,479
IDEA B, IEP Analysis	84.027	19660077084908	40,000
Restart Hurricane Recovery	84.938	19511701084908	21,048
Education for Homeless Children and Youth	84.196	194600057110035	18,955
<i>Passed Through Education Service Center Region IV</i>			
Title III, English Language	84.365	19671001170904	6,168
TOTAL U.S. DEPARTMENT OF EDUCATION			2,091,237
U.S. DEPARTMENT OF HOMELAND SECURITY			
<i>Direct Award</i>			
FEMA Public Assistance Grant - Hurricane Harvey	97.036	167-V7MQX-00	53,814
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			53,814
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through State Department of Education</i>			
Child Nutrition Cluster:			
School Breakfast Programs	10.553	806780706	279,309
National School Lunch	10.555	806780706	722,229
USDA Commodities	10.565	806780706	31,693
<i>Passed Through State Department of Agriculture</i>			
Child and Adult Care Food Program	10.558	196TX332N1099	44,594
TOTAL U.S. DEPARTMENT OF AGRICULTURE			1,077,825
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Direct Award</i>			
Head Start	93.600	06CH010636	1,441,056
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			1,441,056
FEDERAL COMMUNICATIONS COMMISSION			
<i>Direct Program</i>			
Universal E-Rate	32.000		32,052
TOTAL FEDERAL COMMUNICATIONS COMMISSION			32,052
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 4,695,984
		Federal revenue per SEFA	\$ 4,695,984
		SHARS	707,570
		Reimbursement for debt service	181,233
		C-2 Federal Revenue	\$ 5,584,787

The accompanying notes are an integral part of this schedule.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2019

NOTE 1: BASIS OF ACCOUNTING

The accompanying schedule of expenditures of federal awards (SEFA) includes the federal grant activity of the District. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR)* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Therefore, some amounts may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the modified accrual basis of accounting. These expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Negative amounts shown on the SEFA, if any, represent adjustments or credit made in the normal course of business to amounts reported as expenditures in prior years.

NOTE 3: INDIRECT COST RATE

The District has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

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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, 2019

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any debt agreement at fiscal year?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the District make timely payments to the Teacher Retirement System, Texas Workforce Commission, Internal Revenue Service, and other government agencies?	Yes
SF8	Did the District not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program funds as a result of a financial hardship?	Yes
SF10	What was total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year end?	\$ 129,509
SF11	Net pension asset (1920) at fiscal year end	\$ -
SF12	Net pension liability (2540) at fiscal year end	\$ 7,454,438



Management Letter

February 11, 2020

To the Board of Trustees of
Hitchcock Independent School District:

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

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

Our report is as follows:

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hitchcock Independent School District (the "District") as of and for the year ended August 31, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

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

Our findings and additional comments are as follows:

CURRENT YEAR MATTERS

Significant Deficiency:

2019.001 CASH BALANCES AND BANK RECONCILIATIONS

Condition

The District was initially unable to provide a bank reconciliation that agreed with its general ledger cash balance as of August 31, 2019 for the District's operating cash account.

Effect

The District's cash and interfund activity did not reconcile and reflect the actual financial transactions as they occurred during the year.

Cause

The District does not currently utilize the bank reconciliation module available through its financial accounting and reporting software vendor. Instead, the District uses a standalone program in which activity is downloaded and reconciled to the bank statement. Accordingly, it is not clear when the general ledger is out of balance between the reconciliation and the bank statement. Additionally, activity that occurred on the bank statement was not recorded within the District's general ledger accounts.

Criteria

The District should reconcile all cash transactions in accordance with generally accepted accounting principles.

Recommendation

The District should evaluate the cost and implementation of the bank reconciliation module available through the District's financial accounting and reporting software vendor. Alternatively, additional procedures and training should be considered to ensure the bank reconciliation reflects activity on the general ledger. The District should also ensure that all activity occurring at the bank is in agreement with its general ledger.

Management's Corrective Action Plan

The District concurs with this recommendation and will evaluate the bank reconciliation module available through its financial accounting and reporting software vendor.

Other Matters:

2019.002 EXPENDITURES IN EXCESS OF APPROPRIATIONS

Condition

As disclosed in the notes to the financial statements, expenditures exceeded appropriations in functions 11, 51, 52, and 61 of the general fund and in function 72 of the debt service fund.

Criteria

Sections 44.002 through 44.006 of the Texas Education Code establish the legal basis for budget development. In addition, Texas Education Agency (TEA) has developed additional requirements for school district budgets. The TEA's Division of Financial Audits monitors compliance with original and final amended budgets of school districts.

Recommendation

The District should monitor expenditures throughout the year to ensure that budget appropriations are not exceeded as approved by the Board of Trustees (the "Board") in accordance with the Texas Education Code. If the original authorization is insufficient, an amendment should be proposed to the Board.

Management's Corrective Action Plan

The District concurs with this recommendation and will review the budget to actual reports for expenditures and amend the budget before year end in anticipation of final expenditures.

2019.003 DEBT SERVICE FUND

Condition

The District's individual funds used to track debt service by bond series are not being maintained.

Effect

Some of the individual funds reflect deficit fund balances and property tax revenue that is not in accordance with the related debt service expenditures accounted for in the fund.

Recommendation

The District should consolidate all its individual debt service funds into one fund to provide a more meaningful presentation of its actual debt service activity. -

Management's Corrective Action Plan

The District concurs with this recommendation and will consolidate all of its individual debt service funds into one fund.

2019.004 DEBT SERVICE FUND CASH BALANCES

Condition

The District's debt service funds have accumulated significant cash and investment account balances.

Recommendation

The District should work with its financial advisor to evaluate the opportunity to pay off some of its existing debt early and or reduce the debt service portion of its tax rate in future years to spend down its cash investment account balances.

Management's Corrective Action Plan

The District concurs with this recommendation and is in the process of evaluating options to spend down its cash balances.

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

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

BELT HARRIS PECHACEK, LLP

Belt Harris Pechacek, LLP
Certified Public Accountants
Houston, Texas

