

HULL-DAISETTA INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2012

Hull-Daisetta Independent School District
 Annual Financial Report
 For the Year Ended August 31, 2012

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
INTRODUCTORY SECTION		
Certificate of Board	1	
FINANCIAL SECTION		
Independent Auditor’s Report	4-5	
Management’s Discussion and Analysis (Required Supplementary Information)	7-13	
<u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Assets	16	A-1
Statement of Activities	17	B-1
Fund Financial Statements:		
Balance Sheet – Governmental Funds	18	C-1
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Assets	19	C-2
Statement of Revenues, Expenditures, and Changes in		
Fund Balance – Governmental Funds	20	C-3
Reconciliation of the Statement of Revenues, Expenditures, and		
Changes in Fund Balances of Governmental Funds to the		
Statement of Activities	21	C-4
Statement of Fiduciary Net Assets – Fiduciary Funds	22	D-1
Statement of Changes in Fiduciary Fund Net Assets	23	D-2
Notes to the Financial Statements	25-38	
<u>Required Supplementary Information:</u>		
Budgetary Comparison Schedules:		
General Fund	40	E-1
OTHER SUPPLEMENTARY INFORMATION SECTION		
Schedule of Delinquent Taxes Receivable	42-43	F-1
Indirect Cost Computation Schedule	44	F-2
Budgetary Comparison Schedules Required by the Texas Education Agency:		
Child Nutrition Program	45	F-4
Debt Service Fund	46	F-5

Hull-Daisetta Independent School District
Annual Financial Report
For the Year Ended August 31, 2012

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
FEDERAL AWARDS SECTION		
Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards	48-49	
Report on Compliance with Requirements Applicable to each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	50-51	
Schedule of Findings and Questioned Costs	52-53	
Summary Schedule of Prior Year Findings	54	
Corrective Action Plan	55	
Schedule of Expenditures of Federal Awards	56	G-1
Notes on Accounting Policies for Federal Awards	57	

INTRODUCTORY SECTION

CERTIFICATE OF BOARD

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
Name of School District

Liberty
County

146905
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved _____ disapproved for the year ended August 31, 2012 at a meeting of the Board of Trustees of such school district on the 18th day of December, 2012.

Vincent Espree
Signature of Board Secretary

Anna Lou Warren
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)

THIS PAGE LEFT BLANK INTENTIONALLY

FINANCIAL SECTION

WIGGINS & SMITH

Certified Public Accountants

MEMBERS OF
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 10316 - 715 MAIN STREET - LIBERTY, TEXAS 77575 - (936) 336-6661 - FAX(936) 336-7086

**UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER
SUPPLEMENTARY INFORMATION INCLUDING THE
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Independent Auditor's Report

Board of Trustees
Hull-Daisetta Independent School District
P.O. Box 477
Daisetta, Texas 77533

Members of the Board:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hull-Daisetta Independent School District (the District) as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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 Hull-Daisetta Independent School District as of August 31, 2012, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary information identified as required supplementary information on pages 7 through 13 and 38, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements which collectively comprise the Hull-Daisetta Independent School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Additionally, the Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as F-1 through F-5. These schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Wiggins & Smith
WIGGINS & SMITH
Certified Public Accountants

December 12, 2012

THIS PAGE LEFT BLANK INTENTIONALLY

HULL-DAISETTA INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the annual Financial and Compliance Report, we, the management of the Hull-Daisetta Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2012. Please read it in conjunction with the District's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net assets increased by \$370,474, or 6.8%, as a result of this year's operations.
- During the year, the District had total expenses of \$6,094,080, before reduction for program revenues and charges for services totaling \$1,224,988. The net expenses of \$4,869,092 were financed by taxes, state foundation program entitlements and other general revenues which totaled \$5,239,566.
- The General Fund ended the year with a fund balance of \$2,763,127, an increase of \$496,013 from the prior year-end.
- The District had capital expenditures during the current period totaling \$275,417, including completion of the Jr. High classroom additions of \$133,866, new air condition/heating systems totaling \$85,199, a new weight room for \$47,439.
- The District issued Unlimited Tax Refunding Bonds, Series 2012, in December 2011. The proceeds of the Bonds, with total stated principal of \$975,000, were used to facilitate a current refunding of the outstanding debt of the 1998 Series Bonds, which also totaled \$975,000. This current refunding will reduce the District's total debt payments over the next 6 years by \$51,900, resulting in an economic gain of approximately \$47,421 to the District.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (Exhibits A-1 and B-1). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 18) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriation budget. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (starting on page 25) provide narrative explanation or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

Required Supplementary Information includes a budgetary comparison schedule for the General Fund, the only major governmental fund for which a budget must be prepared. The section labeled Other Supplementary Information – TEA Required Schedules, contains data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

HULL-DAISETTA INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 9. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as payments received from students for food service (charges for services), and grants from state and federal agencies for specific programs (program revenues), and revenues provided by the local taxpayers or by the state in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current year or future years.

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

In the Statement of Net Assets and the Statement of Activities, the District reports one kind of activity, Governmental Activities. The District's basic services are reported here, including instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 18 and provide detailed information about the most significant funds-not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District has only governmental funds, in which its basic services are reported. These funds use the modified accrual basis of accounting (a method that measures the receipts and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities reported in the Statement of Net Assets and the Statement of Activities, and governmental funds in reconciliation schedules following each of the fund financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets on page 22. We excluded these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

**HULL-DAISETTA INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets of the District's governmental activities increased from \$5,422,662 to \$5,793,136 during the current year. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$3,263,221 at August 31, 2012, an increase of \$470,793 from the prior year.

**Table I
Hull-Daisetta Independent School District**

NET ASSETS

	<u>Governmental Activities</u>		Increase
	<u>2012</u>	<u>2011</u>	<u>(Decrease)</u>
Current and other assets	\$3,731,398	\$3,584,977	\$146,421
Capital assets, net	<u>4,696,350</u>	<u>4,716,281</u>	(19,931)
Total assets	<u>\$8,427,748</u>	<u>\$8,301,258</u>	<u>\$126,490</u>
Long-term liabilities	\$2,547,876	\$2,777,548	(\$229,672)
Other liabilities	<u>86,736</u>	<u>101,048</u>	(14,312)
Total liabilities	<u>\$2,634,612</u>	<u>\$2,878,596</u>	<u>(\$243,984)</u>
Net Assets:			
Invested in capital assets net of related debt	\$2,222,914	\$1,994,718	\$228,196
Restricted	307,001	635,516	(328,515)
Unrestricted	<u>3,263,221</u>	<u>2,792,428</u>	<u>470,793</u>
Total net assets	<u>\$5,793,136</u>	<u>\$5,422,662</u>	<u>\$370,474</u>

Unrestricted net assets includes \$1,700,000 which has been assigned by management as funds, recorded in the general fund, earmarked for additional building improvements, equipment and technology improvements or contingencies. Since assignment by management does not create a legally binding commitment, this amount is not considered a "restricted" net asset for the purposes of the government-wide financial statements.

Restricted net assets in the above table includes amounts restricted for use in the Food Service (Child Nutrition) Fund - \$10,237; other special revenue funds - \$62,309; and amounts restricted for future debt payments in the Debt Service Fund - \$234,455.

The net positive change in current and other assets, and other liabilities, essentially reflects the provision for current resources from operations of the governmental funds. The decrease in long term liabilities reflects the scheduled payments of principal on outstanding bonds, and the decrease in capital assets reflects current capital improvements of \$275,417 reduced by current depreciation of \$295,348.

**HULL-DAISETTA INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Table II
Hull-Daisetta Independent School District**

CHANGES IN NET ASSETS

	<u>Governmental Activities</u>		<u>Increase (Decrease)</u>
	<u>2012</u>	<u>2011</u>	
Revenues:			
Program revenues:			
Charges for Services	\$236,365	\$118,240	\$118,125
Operating grants and contributions	988,623	912,728	75,895
General revenues:			
Maintenance and operations taxes	3,007,071	3,084,820	(77,749)
Debt service taxes	158,868	163,963	(5,095)
State aid – formula grants and other grants not restricted to specific functions	1,834,296	2,010,456	(176,160)
Investment earnings	7,741	10,166	(2,425)
Insurance recovery	71,044	87,950	(16,906)
Penalty and interest, taxes	83,821	99,137	(15,316)
Tuition	<u>76,725</u>	<u>0</u>	<u>76,725</u>
Total Revenue	<u>\$6,464,554</u>	<u>\$6,487,460</u>	<u>(\$22,906)</u>
Expenses:			
Instruction, curriculum and media services	\$3,199,915	\$3,320,339	(\$120,424)
Instructional and school leadership	343,503	353,804	(10,301)
Student support services	361,111	362,211	(1,100)
Child nutrition	336,765	341,149	(4,384)
Cocurricular activities	352,331	276,026	76,305
General administration	322,644	340,693	(18,049)
Plant maintenance, security and community service	634,037	721,836	(87,799)
Debt service – interest and fees	115,928	48,933	66,995
Facilities Acquisition and Construction	151,212	183,418	(32,206)
Payments related to shared service arrangements	185,698	99,029	86,669
Appraisal district costs	<u>90,936</u>	<u>78,800</u>	<u>12,136</u>
Total Expenses	<u>\$6,094,080</u>	<u>\$6,126,238</u>	<u>(\$32,158)</u>
Increase (Decrease) in net assets	\$370,474	\$361,222	\$9,252
Net assets at beginning of year	<u>5,422,662</u>	<u>5,061,440</u>	<u>361,222</u>
Net assets at end of year	<u>\$5,793,136</u>	<u>\$5,422,662</u>	<u>\$370,474</u>

The District's total revenues decreased approximately 0.35%, or \$22,906 from prior year revenues. The total cost of all programs and services decreased \$32,158, or 0.52% from prior year costs.

The District's primary sources of revenue includes local taxes (50%), state aid from formula grants (29%), and other state and federal grants (15%). The remaining 6% of revenues includes charges for services and other revenue. The most significant costs are for instructional services (53%).

**HULL-DAISETTA INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The decrease in total revenues includes the following factors:

- (1) Overall property tax revenues decreased \$82,844, or 2.6%, from the prior year. This decrease resulted primarily from a decrease in taxable value of approximately 5%.
- (2) Overall State revenues from formula grants and other state programs decreased \$176,160 from prior year revenues.
- (3) The District's decrease in revenue from most sources was partially offset by the receipt of refunds from the fiscal agent of a shared service arrangement (\$112,147) and the receipt of tuition for prior years from a neighboring district (\$76,725).

The decrease in total costs for all programs and services results primarily from the following:

- (1) District-wide reduction in payroll costs of approximately 7%, or \$288,000.
- (2) The decrease in payroll costs was partially offset by an increase in cost for debt service interest, and an increase in costs for cocurricular activities due to supplies and furnishing/equipment for the new weight room.

FINANCIAL ANALYSIS OF THE DISTRICT'S INDIVIDUAL FUNDS

As of August 31, 2012, the District's governmental funds (as presented in the balance sheet on page 18) reported a combined fund balance of \$3,039,832, an increase of \$109,679 from the prior year's combined balance of \$2,930,153. The increase in combined fund balances results primarily from the same effects on revenues and costs discussed in the Government-Wide Financial Analysis section of this MD & A.

General Fund Budgetary Highlights

In accordance with State law, the District prepares an annual budget for the General Fund, the Food Service Special Revenue Fund, and the Debt Service Fund. The District also budgets other Special Revenue Funds on a project basis.

During the period ended August 31, 2012, the Board of Trustees revised the budget for the General Fund several times, primarily involving reallocation of functional budgets. There was a 1.04% increase in the budget totals from the original adopted budget to the final amended budget.

As indicated on the Budgetary Comparison Schedule – General Fund on page 40, the overall budget variance for the period was positive.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At August 31, 2012, the District had \$10,420,781 invested in a broad range of capital assets (before depreciation), including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase of \$275,417 from the prior year.

**HULL-DAISETTA INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

This year's major additions (deletions) included:

Jr. High completion of new classrooms	\$133,866
Air conditioning/heating systems	85,199
Construction of weight room	47,439
Intercom/sound system	<u>8,913</u>
Total	<u>\$275,417</u>

More detailed information about the District's capital assets is presented in Note III.F to the financial statements.

Long-Term Debt

As noted in the Financial Highlights on page 7, the District issued Unlimited Tax Refunding Bonds, Series 2012, for the purpose of refunding the remainder of the outstanding debt of the 1998 Bonds. This refunding will reduce the District's total scheduled debt payments over the next 6 years by \$51,900, resulting in an economic benefit (defined as the difference between the present values of the old and new debt service payments) of approximately \$47,421.

Following is a summary of the outstanding long-term liabilities at August 31, 2012. More detailed information regarding these outstanding obligations is presented in Note III.H to the financial statements.

Analysis of Long-Term Liabilities

<u>Description of Liability – Principal Balance</u>	Governmental Activities August 31, <u>2012</u>
Unlimited Tax Refunding Bonds – Series 2012	\$850,000
Unlimited Tax Qualified School Construction Bonds, Series 2011	1,689,000
Net Premiums/Discounts, and Accrued Interest	<u>8,876</u>
Total	<u>\$2,547,876</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's Board of Trustees and management officials considered many factors when setting the fiscal year 2012 budget and tax rates. Following are some items considered:

- Student enrollment projected for 2012-2013 reflects a slight decrease from 2011-12.
- Revenue available for general operations from ad valorem taxes were projected to be relatively unchanged from the 2011-2012 tax revenues, based upon a tax rate of \$1.17/\$100 valuation.
- Preliminary estimates of State foundation program entitlements for the General Fund for the 2012-2013 school year indicate that the District should receive approximately \$1,854,000, an increase of approximately \$30,000, or 1.6%, from the 2011-2012 actual State foundation revenue.
- No significant new programs were added and no significant changes to existing programs were planned for 2012-2013.

**HULL-DAISETTA INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS**

The District's budget as approved provides for total General Fund expenditures of \$5,138,116, including capital expenditures for building renovations totaling \$62,115. As adopted, the budget for 2012-2013 for the General Fund represents a 4.6% increase over the 2011-2012 actual expenditures, and is a balanced budget. The District's overall tax rate for the fiscal year 2012-2013 is \$1.17/\$100 valuation for M & O and \$0.0599/\$100 valuation for Debt Service, for a total rate of \$1.2299/\$100 valuation, a decrease of \$0.0019/\$100 valuation from the year 2011-2012 rate.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to 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 Hull-Daisetta Independent School District, P.O. Box 477, Daisetta, Texas 77533.

THIS PAGE LEFT BLANK INTENTIONALLY

BASIC FINANCIAL STATEMENTS

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2012

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 1,069,042
1120 Current Investments	1,655,137
1220 Property Taxes Receivable (Delinquent)	1,023,611
1230 Allowance for Uncollectible Taxes	(460,625)
1240 Due from Other Governments	366,966
1410 Deferred Expenses	4,747
1420 Capitalized Bond and Other Debt Issuance Costs	72,520
Capital Assets:	
1510 Land	40,500
1520 Buildings, Net	4,414,350
1530 Furniture and Equipment, Net	214,694
1550 Leased Property Under Capital Leases, Net	26,806
1000 Total Assets	8,427,748
LIABILITIES	
2110 Accounts Payable	1,696
2150 Payroll Deductions & Withholdings	449
2160 Accrued Wages Payable	79,100
2200 Accrued Expenses	2,145
2300 Deferred Revenues	3,346
Noncurrent Liabilities	
2501 Due Within One Year	240,920
2502 Due in More Than One Year	2,306,956
2000 Total Liabilities	2,634,612
NET ASSETS	
3200 Invested in Capital Assets, Net of Related Debt	2,222,914
3820 Restricted for Federal and State Programs	72,546
3850 Restricted for Debt Service	234,455
3900 Unrestricted Net Assets	3,263,221
3000 Total Net Assets	\$ 5,793,136

The notes to the financial statements are an integral part of this statement.

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2012

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 3,039,332	\$ 47,453	\$ 430,645	\$ (2,561,234)
12 Instructional Resources and Media Services	45,847	-	2,061	(43,786)
13 Curriculum and Staff Development	114,736	-	106,579	(8,157)
21 Instructional Leadership	84,852	-	39,698	(45,154)
23 School Leadership	258,651	-	79,123	(179,528)
31 Guidance, Counseling and Evaluation Services	61,123	-	3,648	(57,475)
33 Health Services	57,215	-	3,502	(53,713)
34 Student (Pupil) Transportation	242,773	-	6,954	(235,819)
35 Food Services	336,765	56,824	197,002	(82,939)
36 Extracurricular Activities	352,331	8,616	6,787	(336,928)
41 General Administration	322,644	-	13,505	(309,139)
51 Facilities Maintenance and Operations	630,081	11,325	10,844	(607,912)
52 Security and Monitoring Services	3,804	-	-	(3,804)
61 Community Services	152	-	152	-
72 Debt Service - Interest on Long Term Debt	109,761	-	88,123	(21,638)
73 Debt Service - Bond Issuance Cost and Fees	6,167	-	-	(6,167)
81 Capital Outlay	151,212	-	-	(151,212)
93 Payments related to Shared Services Arrangements	185,698	112,147	-	(73,551)
99 Other Intergovernmental Charges	90,936	-	-	(90,936)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 6,094,080	\$ 236,365	\$ 988,623	(4,869,092)
Data Control Codes	General Revenues:			
MT	Property Taxes, Levied for General Purposes			3,007,071
DT	Property Taxes, Levied for Debt Service			158,868
SF	State Aid - Formula Grants			1,824,391
GC	Grants and Contributions not Restricted			9,905
IE	Investment Earnings			7,741
MI	Miscellaneous Local and Intermediate Revenue			231,590
TR	Total General Revenues			5,239,566
CN	Change in Net Assets			370,474
NB	Net Assets--Beginning			5,422,662
NE	Net Assets--Ending			\$ 5,793,136

The notes to the financial statements are an integral part of this statement.

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2012

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds	
ASSETS				
1110	Cash and Cash Equivalents	\$ 1,039,178	\$ 29,864	\$ 1,069,042
1120	Investments - Current	1,504,432	150,705	1,655,137
1220	Property Taxes - Delinquent	962,125	61,486	1,023,611
1230	Allowance for Uncollectible Taxes (Credit)	(432,956)	(27,669)	(460,625)
1240	Receivables from Other Governments	285,559	81,407	366,966
1260	Due from Other Funds	-	19,967	19,967
1410	Deferred Expenditures	-	4,747	4,747
1000	Total Assets	<u>\$ 3,358,338</u>	<u>\$ 320,507</u>	<u>\$ 3,678,845</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110	Accounts Payable	\$ 1,696	\$ -	\$ 1,696
2150	Payroll Deductions and Withholdings Payable	449	-	449
2160	Accrued Wages Payable	70,860	8,240	79,100
2170	Due to Other Funds	19,967	-	19,967
2200	Accrued Expenditures	2,145	-	2,145
2300	Deferred Revenues	500,094	35,562	535,656
2000	Total Liabilities	<u>595,211</u>	<u>43,802</u>	<u>639,013</u>
Fund Balances:				
Restricted Fund Balance:				
3450	Federal or State Funds Grant Restriction	-	72,546	72,546
3480	Retirement of Long-Term Debt	-	204,159	204,159
Assigned Fund Balance:				
3550	Construction and Improvements	900,000	-	900,000
3570	Equipment and Technology Improvements	350,000	-	350,000
3590	Other Assigned Fund Balance	450,000	-	450,000
3600	Unassigned Fund Balance	1,063,127	-	1,063,127
3000	Total Fund Balances	<u>2,763,127</u>	<u>276,705</u>	<u>3,039,832</u>
4000	Total Liabilities and Fund Balances	<u>\$ 3,358,338</u>	<u>\$ 320,507</u>	<u>\$ 3,678,845</u>

The notes to the financial statements are an integral part of this statement.

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
AUGUST 31, 2012

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 3,039,832
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.	4,696,350
2 Property taxes receivable which are not available to pay for current period expenditures are deferred in the governmental funds balance sheet.	532,310
3 Payables for unmatured bond principal are not reported in the governmental funds.	(2,539,000)
4 Issuance costs on bonds are capitalized and amortized for the government wide financial statements, but reported as expenditures in the governmental funds.	72,520
5 Accrued interest, unamortized bond premiums, and deferred amounts with respect to long term debt are not reported in the governmental funds.	(8,876)
19 Net Assets of Governmental Activities	<u>\$ 5,793,136</u>

The notes to the financial statements are an integral part of this statement.

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds	
REVENUES:				
5700	Total Local and Intermediate Sources	\$ 3,388,572	\$ 221,092	\$ 3,609,664
5800	State Program Revenues	2,017,596	151,476	2,169,072
5900	Federal Program Revenues	3,681	650,166	653,847
5020	Total Revenues	<u>5,409,849</u>	<u>1,022,734</u>	<u>6,432,583</u>
EXPENDITURES:				
Current:				
0011	Instruction	2,545,373	305,134	2,850,507
0012	Instructional Resources and Media Services	45,847	-	45,847
0013	Curriculum and Instructional Staff Development	8,157	106,579	114,736
0021	Instructional Leadership	47,026	37,826	84,852
0023	School Leadership	183,650	66,826	250,476
0031	Guidance, Counseling and Evaluation Services	61,123	-	61,123
0033	Health Services	57,215	-	57,215
0034	Student (Pupil) Transportation	199,010	-	199,010
0035	Food Services	-	318,128	318,128
0036	Extracurricular Activities	320,179	-	320,179
0041	General Administration	319,818	-	319,818
0051	Facilities Maintenance and Operations	629,111	-	629,111
0052	Security and Monitoring Services	3,804	-	3,804
0061	Community Services	-	152	152
Debt Service:				
0071	Principal on Long Term Debt	-	236,000	236,000
0072	Interest on Long Term Debt	-	111,021	111,021
0073	Bond Issuance Cost and Fees	-	25,250	25,250
Capital Outlay:				
0081	Facilities Acquisition and Construction	153,513	273,116	426,629
Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of SSA	185,698	-	185,698
0099	Other Intergovernmental Charges	90,936	-	90,936
6030	Total Expenditures	<u>4,850,460</u>	<u>1,480,032</u>	<u>6,330,492</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>559,389</u>	<u>(457,298)</u>	<u>102,091</u>
OTHER FINANCING SOURCES (USES):				
7911	Capital Related Debt Issued (Regular Bonds)	-	999,529	999,529
7915	Transfers In	-	63,376	63,376
8911	Transfers Out (Use)	(63,376)	-	(63,376)
8949	Other (Uses)	-	(991,941)	(991,941)
7080	Total Other Financing Sources (Uses)	<u>(63,376)</u>	<u>70,964</u>	<u>7,588</u>
1200	Net Change in Fund Balances	496,013	(386,334)	109,679
0100	Fund Balance - September 1 (Beginning)	<u>2,267,114</u>	<u>663,039</u>	<u>2,930,153</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 2,763,127</u>	<u>\$ 276,705</u>	<u>\$ 3,039,832</u>

The notes to the financial statements are an integral part of this statement.

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2012

Total Net Change in Fund Balances - Governmental Funds	\$	109,679
Current year capital outlays are expenditures in the fund statements but increase capital assets in the statement of activities.		275,417
Depreciation of capital assets is included in the statement of activities but not in the fund statements.		(295,348)
Repayment of long term debt principal is an expenditure in the fund statements but reduces the liability in the statement of net assets.		236,000
Proceeds and use of funds, with respect to refunding bonds issued in the current year are recorded as other sources and uses of funds in the fund statements, but are reclassified in the statements of net assets to reflect unamortized premiums and deferred amounts.		(7,588)
Issuance costs are recorded as expenditures in the fund statements but are capitalized and amortized in the statement of net assets. This number is the issuance costs of the current year issue, net of amortization of all issuance costs for the year.		19,083
Certain property tax revenues not available to pay current expenditures are deferred in the fund statements. Tax revenue in the statement of activities is recognized on the accrual basis when levied. The net change in tax revenue recognition for the year is this amount.		31,971
Interest is accrued on long term debt, and adjustments are made to interest expense due to amortization of premiums and deferred amounts on bonds for the statement of activities, but not for the fund statements. The net effect on interest expense is the following amount.		1,260
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>370,474</u>

The notes to the financial statements are an integral part of this statement.

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 AUGUST 31, 2012

EXHIBIT D-1

	Private Purpose Trust Fund	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 64,725	\$ 66,408
Total Assets	<u>64,725</u>	<u>\$ 66,408</u>
LIABILITIES		
Due to Student Groups	-	\$ 66,408
Total Liabilities	<u>-</u>	<u>\$ 66,408</u>
NET ASSETS		
Unrestricted Net Assets	<u>64,725</u>	
Total Net Assets	<u>\$ 64,725</u>	

The notes to the financial statements are an integral part of this statement.

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF CHANGES IN FIDUCIARY FUND NET ASSETS
 FIDUCIARY FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2012

	Private Purpose Trust Fund
ADDITIONS:	
Donor Contributions	\$ 64,725
Total Additions	<u>64,725</u>
Change in Net Assets	64,725
Total Net Assets - September 1 (Beginning)	<u>-</u>
Total Net Assets - August 31 (Ending)	<u><u>\$ 64,725</u></u>

The notes to the financial statements are an integral part of this statement.

THIS PAGE LEFT BLANK INTENTIONALLY

HULL-DAISETTA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2012

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

The Board of Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from the local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity," as revised by GASB Statement No. 39, and there are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the Hull-Daisetta Independent School District's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues.

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

Interfund activities between governmental funds appear as due to/due froms on the Governmental Funds Balance Sheet and as other resources and other uses on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories – governmental and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statement. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

C. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

Government-wide Financial Statements: These 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 the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants, entitlements and donations are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses). The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors may require the District to refund all or part of the unused amount.

When fund balance resources are available for a specific purpose in more than one classification, it is the District's policy to use the most restrictive funds first in the following order: restricted, committed, assigned, and unassigned as they are needed.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

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

Additionally, the District reports the following fund types:

Other Governmental Funds:

Special Revenue Funds – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most federal and some state financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Debt Service Funds – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Capital Projects Fund – The proceeds from long-term debt financing and revenues and expenditures related to authorized construction or renovation costs are accounted for in a capital projects fund.

In addition the District reports the following fund types:

Private Purpose Trust Funds – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Fund is the Scholarship Trust Fund. This fund is held in a trustee capacity and is not available to support district programs. Therefore, it is not included in the government-wide statements.

Agency Funds – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Funds are student activity funds.

E. OTHER ACCOUNTING POLICIES

1. **Cash and Temporary Investments** - Cash includes cash on hand and cash in demand and short-term time deposit accounts. Cash deposits are reported at carrying amount which reasonably estimates fair value.

Temporary investments are reported at fair value which is determined using selected bases. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates, and investments that do not have an established market are reported at estimated fair value.

2. **Inventories** – The District records purchases of supplies as expenditures. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories on hand at the end of the current year are not significant, and have not been reflected on the balance sheet.
3. **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. Significant bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognized bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuance are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

4. **Compensated Absences** -- The District does not have a policy for the accumulation of sick leave or vacation pay, which would allow for the payment of such amounts in a lump sum at retirement or severance from the District. Employees can utilize sick leave or vacation pay only during the term of their employment, thus payments associated with these benefits are provided by the District as needed.
5. **Capital Assets** – Capital assets, which include land, buildings, furniture and equipment (and infrastructure assets) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Buildings, furniture and equipment of the District is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	40
Building Improvements	10-20
Vehicles	5-15
Office and Other Equipment	5-10
Capital Lease Equipment	7-15

6. **Fund Equity** –Beginning with fiscal year 2011, the District implemented GASB Statement 54 “Fund Balance Reporting and Governmental Fund Type Definitions”. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on the District’s fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used.

- Nonspendable fund balance – amounts that are not in a spendable form (such as inventory or prepaid items) or are required to be maintained intact.
- Restricted fund balance – amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned fund balance – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official body to which the governing body delegates the authority.
- Unassigned fund balance – amounts that are available for any purpose; positive amounts are reported only in the general fund.

The District’s Board of Trustees establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. Authority to assign fund balance has been delegated by the Trustees to the Superintendent or her designee. Assigned fund balance can be established through the planning process or adoption of the budget for a specific purpose.

7. **Interfund Transactions** - Quasi-external transactions are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

All other interfund transactions, except quasi-external transactions and reimbursements are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers. All interfund transactions and balances were eliminated in the preparation of the government-wide statement of net assets and statement of activities.

8. **Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

9. **Data Control Codes** - The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide data base for policy development and funding plans.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund, and the Food Service Funds which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report is Required Supplementary Information and appears in Exhibit E-1, and the Debt Service Fund and Food Service Fund Budget reports are included as Exhibits F-4 and F-5 in Other Supplementary Information.

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

1. Prior to the end of its fiscal period, the District prepares a budget for the next succeeding fiscal period. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to the beginning of the succeeding fiscal year, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year, with such amendments being reflected in the final budget amounts in the applicable budgetary comparison schedule.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

A reconciliation of fund balances for both appropriated and nonappropriated budget special revenue funds is as follows:

	August 31, 2012
	<u>Fund Balance</u>
Appropriated Budget Funds - Food Service Special Revenue Fund	\$10,237
Nonappropriated Budget Funds	<u>62,309</u>
All Special Revenue Funds	<u>\$72,546</u>

5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at year end, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. The District had no significant end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

B. COMPLIANCE AND ACCOUNTABILITY

1. Finance-Related Legal and Contractual Provisions –

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions must be reported, along with actions taken to address such violations. No violations were noted which would require disclosure.

2. Deficit Fund Balance or Fund Net Assets of Individual Funds –

The District had no funds at August 31, 2012, with a deficit fund balance.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit risk for Deposits State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the district complies with this law, it has no custodial credit risk for deposits.

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. The policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The Hull-Daisetta Independent School district is in compliance with the requirements of the Act and with local policies.

As of August 31, 2012, the Hull-Daisetta Independent School had the following investments:

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>	<u>Percentage</u>
Lone Star Investment Pool - Government Overnight Fund	40 Days Average	\$ 24	-
Tex Star Investments – Cash Reserve Fund	50 Days Average	0	-
Deposits at Hull State Bank - Certificates of Deposit – Non Negotiable	Less than 1 Year	<u>1,655,113</u>	100%
Total Investments		<u>\$1,655,137</u>	100%

The Lone Star Investment Pool (Lone Star) and Tex Star Investment (Tex Star) are local government investment “pools” 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. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Lone Star and Tex Star are reported at an amount determined by the fair value per share of the pool's underlying portfolio. Investments in the pool are not exposed to custodial credit or interest risk because their existence is not evidenced by securities that exist in physical or book entry form. Financial information regarding the pools' investments and performance may be obtained from the funds.

Additional policies and contractual provisions governing deposits and investments for the Hull-Daisetta Independent School District are specified below:

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the District's policy limits its investments in obligations and securities authorized by state statutes to the top ratings issued by nationally recognized statistical rating organizations. As of August 31, 2012, and the year then ended, the District invested only in certificates of deposit, which were fully secured by pledged securities or FDIC coverage, or in the Lone Star Investment Pool and Tex Star Investments, which are rated AAA and AAA-m, respectively, by Standard Poor's.

Custodial Credit Risk for Investments As previously stated, the District's investments during the current year were limited to certificates of deposit at the depository institution, which were fully secured at all times, and investments in the Lone Star Investment Pool and Tex Star Investments..

Concentration of Credit Risk The District's investment policy does not specifically limit an investment in any one issuer. The District's investments representing more than 5% of total investments are disclosed on the prior page.

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District normally requires that investments in certificates of deposit or other instruments be monitored by using weighted average maturity and specific identification. Maturities are normally less than one year.

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available, (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

The District's current year tax rate was \$1.2318, with \$1.17 for general fund maintenance and operations, and \$0.0618 for debt service. The rate was applied to a total net assessed value of \$258,774,152.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND BALANCES AND TRANSFERS

1. Due To and From Other Funds -
Interfund balances at August 31, 2012 consisted of the following individual fund balances:

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund:		
Special Revenue Funds	\$ 0	\$19,847
Debt Service Fund	0	120
Special Revenue Funds:		
General Fund	19,847	0
Debt service Fund:		
General Fund	<u>120</u>	<u>0</u>
 TOTAL	 <u>\$19,967</u>	 <u>\$19,967</u>

All interfund balances result from normal operating activity and are expected to be repaid within one year.

2. Transfers To and From Other Funds –

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Food Service Fund	<u>\$63,376</u>	Budgeted Transfer

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2012, were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Due From Other Funds</u>	<u>Total Receivable</u>
Governmental Activities:				
General Fund	\$962,125	\$285,559	\$ 0	\$1,247,684
Debt Service Fund	61,486	0	120	61,606
Other Nonmajor Funds	<u>0</u>	<u>81,407</u>	<u>19,847</u>	<u>101,254</u>
 Total	 <u>\$1,023,611</u>	 <u>\$366,966</u>	 <u>\$19,967</u>	 <u>\$1,410,544</u>
 Amount not scheduled for collection during the subsequent year	 <u>\$460,625</u>	 <u>\$ 0</u>	 <u>\$ 0</u>	 <u>\$460,625</u>

Payables at August 31, 2012, were as follows:

	<u>Accounts</u>	<u>Salaries and Benefits</u>	<u>Accrued Liabilities</u>	<u>Due To Other Funds</u>	<u>Total Payables</u>
Governmental Activities:					
General Fund	\$1,696	\$71,309	\$2,145	\$19,967	\$95,117
Nonmajor Funds	<u>0</u>	<u>8,240</u>	<u>0</u>	<u>0</u>	<u>8,240</u>
 Total	 <u>\$1,696</u>	 <u>\$79,549</u>	 <u>\$2,145</u>	 <u>\$19,967</u>	 <u>\$103,357</u>
 Amount not scheduled for payments during the subsequent year	 <u>\$ 0</u>	 <u>\$ 0</u>	 <u>\$ 0</u>	 <u>\$ 0</u>	 <u>\$ 0</u>

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the period ended August 31, 2012, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$40,500	\$ 0	\$ 0	\$40,500
Construction in Progress	<u>1,052,980</u>	<u>0</u>	<u>1,052,980</u>	<u>0</u>
Total Capital Assets Not Being Depreciated	<u>\$1,093,480</u>	<u>\$ 0</u>	<u>\$1,052,980</u>	<u>\$40,500</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	\$7,571,341	\$1,319,484	\$ 0	\$8,890,825
Furniture and Equipment	935,481	8,913	0	944,394
Capital Lease Property	<u>545,062</u>	<u>0</u>	<u>0</u>	<u>545,062</u>
Total Capital Assets Being Depreciated	<u>\$9,051,884</u>	<u>\$1,328,397</u>	<u>\$ 0</u>	<u>\$10,380,281</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(\$4,234,291)	(\$242,184)	\$ 0	(\$4,476,475)
Furniture and Equipment	(685,633)	(44,067)	0	(729,700)
Capital Lease Property	<u>(509,159)</u>	<u>(9,097)</u>	<u>0</u>	<u>(518,256)</u>
Total Accumulated Depreciation	<u>(\$5,429,083)</u>	<u>(\$295,348)</u>	<u>\$ 0</u>	<u>(\$5,724,431)</u>
Capital Assets Being Depreciated - Net	<u>\$3,622,801</u>	<u>\$1,033,049</u>	<u>\$ 0</u>	<u>\$4,655,850</u>
Governmental Activity Capital Assets - Net	<u>\$4,716,281</u>	<u>\$1,033,049</u>	<u>\$1,052,980</u>	<u>\$4,696,350</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$188,825
School Leadership	8,175
Student (Pupil) Transportation	43,763
Food Services	18,637
Cocurricular/Extracurricular Activities	32,152
General Administration	2,826
Plant Maintenance and Operation	<u>970</u>
Total Depreciation Expense	<u>\$295,348</u>

G. LONG-TERM LIABILITIES

Long term liabilities include building and refunding tax bonds, and qualified school construction bonds, which are serviced through the Debt Service Fund. The District has no local policies regarding debt limitation or debt margin, but must comply with the State requirements.

In December 2011, the District issued Unlimited Tax Refunding Bonds, Series 2012, in the amount of \$975,000. The net proceeds of the issue, \$975,029 (after payment of issuance costs of \$24,500), plus additional District funds of \$16,912, was used to currently refund all of the outstanding debt of the Schoolhouse Bonds, Series 1998 of \$975,000, which were callable on January 4, 2012.

The current refunding resulted in a cumulative difference between the reacquisition price and the net carrying amount of the old debt of \$16,941. The difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2018. The District completed this current refunding to reduce its total debt payments over the next six years by \$51,900, which results in an economic gain (difference between the present values of the old and new debt service payments) of approximately \$47,421.

During the prior year, the District issued the Hull-Daisetta Independent School District Unlimited Tax Qualified School Construction Bonds, Taxable Series 2011 (the Bonds), in the amount of \$1,800,000. The Bonds, dated July 6, 2011, are qualified school construction bonds issued in accordance with the qualified tax credit bonds program found in Section 54A of the Internal Revenue Code of 1986, as amended by provisions of the American Recovery and Reinvestment Act of 2009. Qualified school construction bonds entitle the District to receive federal rebates of 5.05% each year, which will be available to reduce the 5.27% coupon rate to a net cost of 0.22% to the District.

The District had the following activity with respect to long-term liabilities for the year:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable -					
Schoolhouse Bonds, Series 1998, 4.45 – 6.45%	\$975,000	\$ 0	(\$975,000)	\$ 0	\$ 0
Unlimited Tax Refunding Bonds, Series 2012, 5.03% and 2.15%	0	975,000	(125,000)	850,000	128,000
Unlimited Tax Qualified School Construction Bonds, Series 2011, 5.27% Coupon Less 5.05% Rebate	<u>1,800,000</u>	<u>0</u>	<u>(111,000)</u>	<u>1,689,000</u>	<u>111,000</u>
	\$2,775,000	\$975,000	(\$1,211,000)	\$2,539,000	\$239,000
Deferred Amounts -					
Issuance Premiums, 2012 Refunding Bonds	0	24,529	(2,044)	22,485	0
Deferred Amount – 2012 Refunding Bonds	<u>0</u>	<u>(16,941)</u>	<u>1,412</u>	<u>(15,529)</u>	<u>0</u>
Total Bonds Payable	\$2,775,000	\$982,588	(\$1,211,632)	\$2,545,956	\$239,000
Other Liabilities –					
Accrued Interest	<u>2,548</u>	<u>1,920</u>	<u>(2,548)</u>	<u>1,920</u>	<u>1,920</u>
Governmental Activities - Total Long Term Liabilities	<u>\$2,777,548</u>	<u>\$984,508</u>	<u>(\$1,214,180)</u>	<u>\$2,547,876</u>	<u>\$240,920</u>

Following are future requirements of the long-term liabilities:

Year ended <u>August 31,</u>	<u>Unlimited Tax Refunding Bonds, Series 2012</u>			<u>Qualified School Construction Bonds, Series 2011</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest*</u>	<u>Total</u>
2013	\$128,000	\$26,662	\$154,662	\$111,000	\$3,716	\$114,716
2014	134,000	20,073	154,073	111,000	3,472	114,472
2015	141,000	13,157	154,157	111,000	3,227	114,227
2016	146,000	8,041	154,041	112,000	2,983	114,983
2017	149,000	4,870	153,870	112,000	2,737	114,737
2018-2022	152,000	1,634	153,634	563,000	9,981	572,981
2023-2027	<u>0</u>	<u>0</u>	<u>0</u>	<u>569,000</u>	<u>3,760</u>	<u>572,760</u>
Totals	<u>\$850,000</u>	<u>\$74,437</u>	<u>\$924,437</u>	<u>\$1,689,000</u>	<u>\$29,876</u>	<u>\$1,718,876</u>

*Interest on Qualified School Construction Bonds is shown net of the federal rebate of 5.05%.

H. COMMITMENTS UNDER LEASES

The District has no significant commitments under operating (noncapitalized) lease agreements for facilities or equipment which provides for minimum future rental payments beyond the current year. Total operating lease payments for fiscal year 2012 were \$78,979

I. DEFINED BENEFIT PENSION PLAN

Plan Description. Hull-Daisetta Independent School District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfers under Texas Government Code, Title 8, Chapters 803 and 805, respectively. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas, 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2012, 2011 and 2010, and a state contribution rate of 6.58% for the period through December 31, 2009, 6.644% for January 1, 2010 to August 31, 2011, and 6.0% for September, 2011 through August 31, 2012. In certain instances the reporting district is required to make all or a portion of the state's contribution. State contributions to TRS made on behalf of Hull-Daisetta Independent School District's employees for the years ended August 31, 2012, 2011, and 2010, were \$155,549, \$174,390, and \$187,890, respectively. The Hull-Daisetta Independent School District paid additional state contributions for the years ended August 31, 2012, 2011, and 2010, in the amount of \$27,500, \$44,051, and \$44,620 respectively, on the portion of the employees' salaries that exceeded the statutory minimum and from Federal Grants.

J. SCHOOL DISTRICT RETIREE HEALTH PLAN

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

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2012, 2011 and 2010. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the fiscal years 2012, 2011 and 2010, the State's contributions to TRS-Care with respect to the Hull-Daisetta ISD payroll were \$29,863, \$32,762, and \$28,548, respectively, the active member contributions were \$19,411, \$21,295, and \$18,556, respectively, and the school district's contributions were \$16,425, \$18,020, and \$15,701, respectively, which equaled the required contributions for each period.

Medicare Part D Subsidy. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the TRS-Care Program to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments must be recognized as equal revenues and expenditures/expenses by each school district. The total subsidy to TRS-Care allocable to Hull-Daisetta ISD for the current fiscal year is \$7,793.

K DEFERRED REVENUE

Deferred revenue at year end in the fund financial statements, consisted of the following:

	General <u>Fund</u>	Special Revenue <u>Fund</u>	Debt Service <u>Fund</u>	<u>Total</u>
Net Deferred Tax Revenue	\$500,094	\$ 0	\$32,216	\$532,310
Federal and State Grants	<u>0</u>	<u>3,346</u>	<u>0</u>	<u>3,346</u>
Total Deferred Revenue	<u>\$500,094</u>	<u>\$3,346</u>	<u>\$32,216</u>	<u>\$535,656</u>

L. DUE FROM STATE AGENCIES

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2012, are summarized below. All federal grants shown below are passed through the TEA and are reported on the fund financial statements as Due from Other Governments.

<u>Fund</u>	State <u>Funding</u>	Federal <u>Grants</u>	<u>Total</u>
General	\$285,559	\$ 0	\$285,559
Special Revenue	<u>69,673</u>	<u>11,734</u>	<u>81,407</u>
Total	<u>\$355,232</u>	<u>\$11,734</u>	<u>\$366,966</u>

M. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

During the current year, revenues from local and intermediate sources, as recorded in the governmental funds, consisted of the following:

	General <u>Fund</u>	Special Revenue <u>Funds</u>	Debt Service <u>Fund</u>	Capital Projects <u>Fund</u>	<u>Total</u>
Property Taxes	\$2,976,073	\$ 0	\$157,894	\$ 0	\$3,133,967
Penalties, Interest and Other					
Tax Related Income	78,999	0	4,822	0	83,821
Investment Income	6,189	0	1,516	36	7,741
Food Sales	0	56,824	0	0	56,824
Co-curricular Student					
Activities	8,616			0	8,616
Insurance Proceeds	71,056	0	0	0	71,056
SSA-Fiscal Agent Reimbursement	112,147	0	0	0	112,147
Tuition	76,725	0	0	0	76,725
Other	<u>58,767</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>58,767</u>
Total	<u>\$3,388,572</u>	<u>\$56,824</u>	<u>\$164,232</u>	<u>\$36</u>	<u>\$3,609,664</u>

N. LITIGATION AND CONTINGENCIES

At August 31, 2012, Hull-Daisetta Independent School District had no significant known lawsuits, claims or assessments pending or threatened directly against it which could have a material adverse effect on its financial condition.

Federal grant funds and certain state funds require expenditures in prescribed programs or for specific items. Such funds are subject to future audit by applicable state and federal agencies. The District does not anticipate any substantial disallowance of project costs or reduction in future funding due to any such examinations.

Additionally, the District's allocation of state funds for the 2011-2012 fiscal year is subject to change based upon actual daily attendance and other factors. Any change in this allocation will be reflected as an increase or decrease in funding for the subsequent year.

As part of the District's risk management policies, insurance coverage is obtained against loss from physical damage to facilities, contents, and equipment, and general liabilities of the district and the board of trustees. The District's potential loss from any related event or litigation is generally limited to its deductible.

O. RISK MANAGEMENT

General

Like all public schools, the District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2011, the District purchased commercial insurance for claims related to all risks. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for any of the past three fiscal years.

Health Care Coverage

During the year ended August 31, 2012, the District participated in the TRS Active Care Health Insurance Plan administered by the State. The District paid \$225 per month per employee toward the cost of the insurance for those who elected to participate in the plan.

Insurance

During the current year, the District participated in several programs or pools in the Texas Association of School Boards Risk Management Fund (the Fund). These funds were created and are operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. 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, 2011, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

The following coverage was obtained through the Fund for the year ended August 31, 2012:

Property/Casualty Program -

During the current year, the District participated in the TASB Risk Management Fund's (the Fund's) Property Casualty Program with coverage for vehicle liability and physical damage, crime, general liability, and buildings and business personal property liabilities.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property Casualty Program. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves.

Based on information currently available, for the current fiscal year, the District should have no additional liability beyond the contractual obligations for payment of contributions.

Unemployment Compensation Pool –

The Hull-Daisetta Independent School District also provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). 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.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued each month 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 Unemployment Compensation pool members.

Workers' Compensation -

During the year ended August 31, 2012, the Hull-Daisetta ISD met its statutory workers' compensation obligation through participation in the TASB Risk Management Fund (the Fund). The Fund's Workers Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

The District participates in the Fund's reimbursable aggregate deductible program, and is responsible for a certain amount of claims liability as outlined on the member's Contribution and Coverage Summary document. After the member's deductible has been met, the Fund is responsible for additional claims.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$1.5 million. In the event that the Fund was to discontinue operations, the member districts would be responsible for any eligible claims not funded by the pool. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. For the year ended August 31, 2012, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contribution and reimbursable aggregate deductibles.

P. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District participates in a shared services arrangement for special education, which includes school districts in the County of Liberty. The Liberty Independent School District is the fiscal agent manager and is responsible for reporting all financial activities of the Liberty County Cooperative. The member districts provide funds to the fiscal agent, with these expenditures being recorded to account 93-6492 in the general operating fund. Payments from the Hull-Daisetta Independent School District to the cooperative in the current year totaled \$153,315. The cooperative also receives certain funds directly from the granting agency and accounts for activity relative to these projects using Model 2 in the SSA section of the TEA Resource Guide.

The District participates in a shared services arrangement for alternative education for at risk groups through the Gulf Coast Education Consortium. The Liberty Independent School District is the fiscal agent manager and is responsible for reporting all financial activity of the consortium. Current year payments from the District to the consortium totaled \$32,383 and were recorded in the general operating fund of the District.

The District does not account for revenues or expenditures in these programs and does not disclose them in these financial statements. The District does not have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal requirements that would give rise to a future additional benefit or burden to the Hull-Daisetta Independent School District. The fiscal agent managers are responsible for all financial activities of the shared services arrangement.

REQUIRED SUPPLEMENTARY INFORMATION

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 3,194,785	\$ 3,244,785	\$ 3,388,572	\$ 143,787
5800	State Program Revenues	1,861,057	1,861,057	2,017,596	156,539
5900	Federal Program Revenues	-	-	3,681	3,681
5020	Total Revenues	5,055,842	5,105,842	5,409,849	304,007
EXPENDITURES:					
Current:					
0011	Instruction	2,547,973	2,555,577	2,545,373	10,204
0012	Instructional Resources and Media Services	49,168	46,324	45,847	477
0013	Curriculum and Instructional Staff Development	13,400	11,400	8,157	3,243
0021	Instructional Leadership	89,100	47,100	47,026	74
0023	School Leadership	252,485	198,085	183,650	14,435
0031	Guidance, Counseling and Evaluation Services	34,947	64,347	61,123	3,224
0033	Health Services	29,604	59,404	57,215	2,189
0034	Student (Pupil) Transportation	238,549	226,549	199,010	27,539
0036	Extracurricular Activities	273,664	320,179	320,179	-
0041	General Administration	349,351	335,851	319,818	16,033
0051	Facilities Maintenance and Operations	766,490	723,770	629,111	94,659
0052	Security and Monitoring Services	8,000	5,000	3,804	1,196
Capital Outlay:					
0081	Facilities Acquisition and Construction	93,934	155,079	153,513	1,566
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of	150,235	200,235	185,698	14,537
0099	Other Intergovernmental Charges	95,566	95,566	90,936	4,630
6030	Total Expenditures	4,992,466	5,044,466	4,850,460	194,006
1100	Excess (Deficiency) of Revenues Over Expenditures	63,376	61,376	559,389	498,013
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out (Use)	(63,376)	(63,376)	(63,376)	-
7080	Total Other Financing Sources (Uses)	(63,376)	(63,376)	(63,376)	-
1200	Net Change in Fund Balances	-	(2,000)	496,013	498,013
0100	Fund Balance - September 1 (Beginning)	2,267,114	2,267,114	2,267,114	-
3000	Fund Balance - August 31 (Ending)	\$ 2,267,114	\$ 2,265,114	\$ 2,763,127	\$ 498,013

OTHER SUPPLEMENTARY INFORMATION

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It includes information which is required by the Texas Education Agency.

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2012

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2003 and prior years	Various	Various	\$ Various
2004	1.500000	0.08790	136,377,265
2005	1.500000	0.08310	207,670,304
2006	1.500000	0.06570	245,574,051
2007	1.370000	0.06290	255,625,724
2008	1.040000	0.07220	225,171,822
2009	1.170000	0.06420	256,591,314
2010	1.170000	0.07460	223,368,786
2011	1.170000	0.06180	273,772,853
2012 (School year under audit)	1.170000	0.06180	258,774,152
100 TOTALS			

(10) Beginning Balance 9/1/2011	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2012
\$ 282,688	\$ -	\$ 12,615	\$ 1,133	\$ (897)	\$ 268,043
45,774	-	2,806	164	(7,085)	35,719
56,034	-	2,334	129	(165)	53,406
81,978	-	3,999	175	(164)	77,640
94,022	-	6,066	278	(151)	87,527
73,212	-	5,878	402	77	67,009
84,331	-	11,632	638	188	72,249
92,327	-	16,386	1,045	(59)	74,837
143,231	-	35,093	1,854	22,332	128,616
-	3,187,580	2,873,057	151,755	(4,203)	158,565
<u>\$ 953,597</u>	<u>\$ 3,187,580</u>	<u>\$ 2,969,866</u>	<u>\$ 157,573</u>	<u>\$ 9,873</u>	<u>\$ 1,023,611</u>

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2013-2014
GENERAL AND SPECIAL REVENUE FUNDS
AUGUST 31, 2012

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION, 99 - APPRAISAL DISTRICT COST

Account Number	Account Name	1	2	3	4	5	6	7
		(702) School Board	(703) Tax Collections	(701) Supt's Office	(750) Indirect Cost	(720) Direct Cost	(other) Miscellaneous	Total
611X-6146	PAYROLLCOSTS	\$ -	\$ -	\$ 149,911	\$ 100,469	\$ -	\$ -	\$ 250,380
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	962	-	-	-	-	-	962
6212	Audit Services	-	-	-	12,200	-	-	12,200
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	93,869	-	-	-	-	93,869
6214	Lobbying	-	-	-	-	-	-	-
621X	Other Professional Services	-	-	-	-	-	-	-
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	5,493	-	-	5,493
6240	Contr. Maint. and Repair	-	-	-	-	250	-	250
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	1,200	17,713	-	-	18,913
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	911	-	967	1,631	-	-	3,509
6410	Travel, Subsistence, Stipends	630	-	3,658	861	-	-	5,149
6420	Ins. and Bonding Costs	4,230	-	-	637	-	-	4,867
6430	Election Costs	-	-	-	-	-	-	-
6490	Miscellaneous Operating	4,162	-	4,178	6,822	-	-	15,162
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 10,895	\$ 93,869	\$ 159,914	\$ 145,826	\$ 250	\$ -	\$ 410,754

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 5,678,879

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 273,318
Total Debt & Lease(6500)	(11)	-
Plant Maintenance (Function 51, 6100-6400)	(12)	621,334
Food (Function 35, 6341 and 6499)	(13)	165,958
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		145,826

SubTotal: 1,206,436

Net Allowed Direct Cost \$ 4,472,443

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 8,890,825
Historical Cost of Building over 50 years old	(16)	\$ 489,580
Amount of Federal Money in Building Cost (Net of #16)	(17)	-
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18)	\$ 1,489,456
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 578,159
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ 114,680

(8) NOTE A: No Function 53 expenditures are included in this report on administrative costs.
 \$90,936 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 52,000	\$ 52,000	\$ 56,824	\$ 4,824
5800	State Program Revenues	9,602	9,602	7,837	(1,765)
5900	Federal Program Revenues	196,000	196,000	189,165	(6,835)
5020	Total Revenues	257,602	257,602	253,826	(3,776)
EXPENDITURES:					
0035	Food Services	320,978	320,978	318,128	2,850
6030	Total Expenditures	320,978	320,978	318,128	2,850
1100	Excess (Deficiency) of Revenues Over Expenditures	(63,376)	(63,376)	(64,302)	(926)
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	63,376	63,376	63,376	-
7080	Total Other Financing Sources (Uses)	63,376	63,376	63,376	-
1200	Net Change in Fund Balances	-	-	(926)	(926)
0100	Fund Balance - September 1 (Beginning)	11,163	11,163	11,163	-
3000	Fund Balance - August 31 (Ending)	\$ 11,163	\$ 11,163	\$ 10,237	\$ (926)

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 173,175	\$ 173,175	\$ 164,232	\$ (8,943)
5900	Federal Program Revenues	-	-	88,123	88,123
5020	Total Revenues	173,175	173,175	252,355	79,180
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	231,000	231,000	236,000	(5,000)
0072	Interest on Long Term Debt	45,014	45,014	111,021	(66,007)
0073	Bond Issuance Cost and Fees	1,500	1,500	25,250	(23,750)
6030	Total Expenditures	277,514	277,514	372,271	(94,757)
1100	Excess (Deficiency) of Revenues Over Expenditures	(104,339)	(104,339)	(119,916)	(15,577)
OTHER FINANCING SOURCES (USES):					
7911	Capital Related Debt Issued (Regular Bonds)	-	-	999,529	999,529
8949	Other (Uses)	-	-	(991,941)	(991,941)
7080	Total Other Financing Sources (Uses)	-	-	7,588	7,588
1200	Net Change in Fund Balances	(104,339)	(104,339)	(112,328)	(7,989)
0100	Fund Balance - September 1 (Beginning)	316,487	316,487	316,487	-
3000	Fund Balance - August 31 (Ending)	\$ 212,148	\$ 212,148	\$ 204,159	\$ (7,989)

FEDERAL AWARDS SECTION

WIGGINS & SMITH

Certified Public Accountants

MEMBERS OF
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 10316 - 715 MAIN STREET - LIBERTY, TEXAS 77575 - (936) 336-6661 - FAX(936) 336-7086

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

Independent Auditor's Report

Board of Trustees
Hull-Daisetta Independent School District
P.O. Box 477
Daisetta, Texas 77533

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hull-Daisetta Independent School District as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 12, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hull-Daisetta Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal controls, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

However, we identified certain deficiencies in internal control over financial reporting, described as Finding 2012-1 in the accompanying Schedule of Findings and Questioned Costs, that we consider to be significant deficiencies in internal control over financial reporting. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hull-Daisetta Independent School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the District's trustees, the administration, federal awarding agencies and pass-through entities, and is not intended to be used and should not be used by anyone other than these specified parties.

Wiggins & Smith
WIGGINS & SMITH
Certified Public Accountants

December 12, 2012

WIGGINS & SMITH

Certified Public Accountants

MEMBERS OF
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
TEXAS SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

P.O. BOX 10316 - 715 MAIN STREET - LIBERTY, TEXAS 77575 - (936) 336-6661 - FAX(936) 336-7086

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

Independent Auditor's Report

Board of Trustees
Hull-Daisetta Independent School District
P.O. Box 477
Daisetta, Texas 77533

Members of the Board:

Compliance

We have audited the compliance of Hull-Daisetta Independent School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Hull-Daisetta Independent School District's administrators. Our responsibility is to express an opinion on the District's compliance based on our audit.

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

In our opinion, Hull-Daisetta Independent School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended August 31, 2012.

Internal Control Over Compliance

The administration of Hull-Daisetta Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

This report is intended for the information of the District's Trustees, the audit committee, the administration, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.

Wiggins & Smith

WIGGINS & SMITH

Certified Public Accountants

December 12, 2012

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 FOR THE YEAR ENDED AUGUST 31, 2012

I. Summary of the Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- o Material weakness identified? Yes X No
- o Significant deficiency identified that is not considered to be a material weakness? X Yes None Reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:

- o Material weakness identified? Yes X No
- o Significant deficiency identified that is not considered to be a material weakness? Yes X None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes X No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.410	Education Jobs Fund - ARRA
10.553 / 10.555	National School Breakfast and Lunch Programs (cluster)

Dollar threshold used to distinguish between type A and type B programs: \$ 300,000

Auditee qualified as low-risk auditee? X Yes No

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED
FOR THE YEAR ENDED AUGUST 31, 2012

II. Financial Statement Findings

Finding 2012-1

Condition - Expenditures in the Debt Service Fund exceeded the budget.

Criteria - State Government code requires local government expenditures to be approved in the budget by the governing body.

Cause of Condition - Expenditures were incurred in the Debt Service Fund in excess of the approved budget.

Effect of the Condition - Expenditures were not properly approved by the official governing board.

Recommendation - The Debt Serviced Fund budget should be amended during the year as needed prior to making expenditures which would exceed the budget.

Client Response - Frances Fregia, Finance Director, will prepare necessary amendments to the budget for board approval prior to expenditure of funds in excess of the budget.

III. Federal Award Findings and Questioned Costs

None

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2012

(Prepared by the District's Administration)

None reported.

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2012

(Prepared by the District's Administration)

Finding 2012-1 Expenditures in excess of budget.

The District will prepare necessary budget amendments to be approved by the board of trustees prior to making expenditures which will exceed budget amounts.

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2012

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Direct Programs</u>			
Title VI, Part B-Rural Educ. Achievement Program	84.358A	S358A117926	\$ 13,791
Total Direct Programs			\$ 13,791
<u>Passed Through Hardin ISD</u>			
Career and Technical - Basic Grant	84.048	12-146905	\$ 8,411
Total Passed Through Hardin ISD			\$ 8,411
<u>Passed Through Liberty County Cooperative</u>			
IDEA - Part B, Formula	84.027	126600011469066600	\$ 46,553
Total Passed Through Liberty County Cooperative			\$ 46,553
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	12610101146905	\$ 155,927
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	12694501146905	41,142
Education Jobs Fund- ARRA	84.410	11550101146905	110,735
Total Passed Through State Department of Education			\$ 307,804
TOTAL DEPARTMENT OF EDUCATION			\$ 376,559
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401201	\$ 50,188
*National School Lunch Program - Cash Assistance	10.555	71301201	131,887
*National School Lunch Prog. - Non-Cash Assistance	10.555	12-146905	7,090
Total CFDA Number 10.555			138,977
Total Child Nutrition Cluster			189,165
Total Passed Through the State Department of Agriculture			\$ 189,165
TOTAL DEPARTMENT OF AGRICULTURE			\$ 189,165
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 565,724

*Clustered Programs

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
 NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
 YEAR ENDED AUGUST 31, 2012

1. For all Federal programs, the District uses the fund types specified in Texas Education Agency’s *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types and Expendable Trust Funds are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in the General Fund or Special Revenue Funds which are Governmental Fund types. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types, the Expendable Trust Funds, and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period expended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement – Provisional 6/97.

Total Expenditures of Federal Awards per The Schedule of Federal Awards	\$ 565,724
Amount reported in the Debt Service Fund as a federal tax credit on the Qualified School Construction Bonds, Series 2011 - not included on the Schedule of Federal Awards	<u>88,123</u>
Total Federal Revenues per Exhibit C-3	<u>\$ 653,847</u>

SCHOOLS FIRST QUESTIONNAIRE

Hull Daisetta Independent School District

Fiscal Year 2012

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	