

HULL-DAISETTA INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2013

Hull-Daisetta Independent School District
Annual Financial Report
For the Year Ended August 31, 2013

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For the Year Ended August 31, 2013

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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, 2013 at a meeting of the Board of Trustees of such school district on the 19th day of December, 2013.

Vincent Espree
Signature of Board Secretary

David Meadows
Signature of Board President

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

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FINANCIAL SECTION

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

UNMODIFIED OPINIONS ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER INFORMATION

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hull Daisetta Independent School District (the District) as of and for the year ended August 31, 2013 and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Hull Daisetta Independent School District as of August 31, 2013, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note I.E.8 to the financial statements, in fiscal year 2013 the District adopted new accounting guidance relative to GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information-

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7-13 and 42 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information-

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2013, 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* in considering the District's internal control over financial reporting.

Wiggins & Smith
WIGGINS & SMITH
Certified Public Accountants

December 12, 2013

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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, 2013. Please read it in conjunction with the District's financial statements which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position increased by \$408,358, or 7.0%, as a result of this year's operations.
- During the year, the District had total expenses of \$5,943,951, before reduction for program revenues and charges for services totaling \$1,119,712. The net expenses of \$4,824,239 were financed by taxes, state foundation program entitlements and other general revenues which totaled \$5,305,117.
- The General Fund ended the year with a fund balance of \$2,893,239, an increase of \$130,112 from the prior year-end.
- The District had capital expenditures during the current period totaling \$539,220, including construction of a new field house - \$352,377, other building improvements - \$81,976, and furnishings and equipment - \$104,867.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position 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 16) 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 23) 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 Position 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 position and changes in it. The District's net position (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 Position 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 16 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 Position 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 Position on page 20. 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 position of the District's governmental activities increased from \$5,793,136 to \$6,201,494 during the current year. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$3,372,847 at August 31, 2013, an increase of \$109,626 from the prior year.

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

NET POSITION

	<u>Governmental Activities</u>		Increase (Decrease)
	<u>2013</u>	<u>2012</u>	
Current and other assets	\$3,674,681	\$3,731,398	(\$56,717)
Capital assets, net	4,937,687	4,696,350	241,337
Deferred charge for refunding and deferred outflow	<u>12,705</u>	<u>0</u>	<u>12,705</u>
Total assets	<u>\$8,625,073</u>	<u>\$8,427,748</u>	<u>\$197,325</u>
Long-term liabilities	\$2,320,650	\$2,547,876	(\$227,226)
Other liabilities	<u>102,929</u>	<u>86,736</u>	<u>16,193</u>
Total liabilities	<u>\$2,423,579</u>	<u>\$2,634,612</u>	<u>(\$211,033)</u>
Net Position:			
Invested in capital assets net of related debt	\$2,631,995	\$2,222,914	\$409,081
Restricted	196,652	307,001	(110,349)
Unrestricted	<u>3,372,847</u>	<u>3,263,221</u>	<u>109,626</u>
Total net positions	<u>\$6,201,494</u>	<u>\$5,793,136</u>	<u>\$408,358</u>

Unrestricted net position 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 position for the purposes of the government-wide financial statements.

Restricted net position in the above table includes amounts restricted for use in the Food Service (Child Nutrition) Fund - \$69,159; other special revenue funds - \$11,981; and amounts restricted for future debt payments in the Debt Service Fund - \$115,512.

The overall decrease in current and other assets, and other liabilities, essentially reflects the use of 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 increase in capital assets reflects current capital improvements of \$539,220 reduced by current depreciation of \$297,883.

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

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

CHANGES IN NET POSITION

	<u>Governmental Activities</u>		Increase <u>(Decrease)</u>
	<u>2013</u>	<u>2012</u>	
Revenues:			
Program revenues:			
Charges for Services	\$286,116	\$236,365	\$49,751
Operating grants and contributions	833,596	988,623	(155,027)
General revenues:			
Maintenance and operations taxes	3,029,052	3,007,071	21,981
Debt service taxes	156,000	158,868	(2,868)
State aid – formula grants and other grants not restricted to specific functions	1,949,094	1,834,296	114,798
Investment earnings	7,538	7,741	(203)
Insurance recovery	47,156	71,044	(23,888)
Penalty and interest, taxes	110,925	83,821	27,104
Other	<u>5,352</u>	<u>76,725</u>	<u>71,373</u>
Total Revenue	<u>\$6,424,829</u>	<u>\$6,464,554</u>	<u>(\$39,725)</u>
Expenses:			
Instruction, curriculum and media services	\$3,196,907	\$3,199,915	(\$3,008)
Instructional and school leadership	338,046	343,503	(5,457)
Student support services	382,681	361,111	21,570
Child nutrition	370,576	336,765	33,811
Cocurricular activities	312,123	352,331	(40,208)
General administration	341,998	322,644	19,354
Plant maintenance, security and community service	641,201	634,037	7,164
Debt service – interest and fees	115,567	115,928	(361)
Facilities Acquisition and Construction	0	151,212	(151,212)
Payments related to shared service arrangements	157,048	185,698	(28,650)
Appraisal district costs	<u>87,804</u>	<u>90,936</u>	<u>(3,132)</u>
Total Expenses	<u>\$5,943,951</u>	<u>\$6,094,080</u>	<u>(\$150,129)</u>
Increase (Decrease) in net position	\$480,878	\$370,474	\$110,404
Net position at beginning of year	5,793,136	5,422,662	370,474
Prior period adjustment, debt issuance cost	<u>(72,520)</u>	<u>0</u>	<u>(72,520)</u>
Net position at end of year	<u>\$6,201,494</u>	<u>\$5,793,136</u>	<u>\$408,358</u>

The District's total revenues decreased approximately 0.61%, or \$39,725 from prior year revenues. The total cost of all programs and services decreased \$150,129, or 2.46% from prior year costs.

The District's primary sources of revenue includes local taxes (51%), state aid from formula grants (30%), and other state and federal grants (13%). The remaining 6% of revenues includes charges for services and other revenue. The most significant costs are for instructional services (54%).

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

The decrease in total revenues includes the following factors:

- (1) Overall property tax revenues increased \$46,217, or 1.4%, from the prior year. This increase resulted primarily from increased delinquent tax collections, including penalty and interest.
- (2) Overall State revenues from formula grants and other state programs increased \$114,798 from prior year revenues, primarily as a result of an increase in average daily attendance, and an increase in available school funds as compared to the prior year.
- (3) The District's decrease in revenue from operating grants primarily reflects the conclusion of the federal Education Jobs Fund, which provided \$110,735 in revenue in the prior year.

The decrease in total costs for all programs and services results primarily from continuation of the cost reductions implemented in the 2011-2012 fiscal year in virtually all functional categories.

FINANCIAL ANALYSIS OF THE DISTRICT'S INDIVIDUAL FUNDS

As of August 31, 2013, the District's governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$3,066,347, an increase of \$26,516 from the prior year's combined balance of \$3,039,831. 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, 2013, the Board of Trustees revised the budget for the General Fund several times, primarily to increase the budget for capital outlay for facility construction and renovation. There was a 7.9% increase in the budget totals for expenditures 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, 2013, the District had \$10,960,001 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 \$539,220 from the prior year.

This year's major additions (deletions) included:

Construction of a new field house	\$352,377
Other building improvements to weight room, band hall and other areas	81,976
Lockers and laundry equipment for field house	65,604
Other equipment	<u>39,263</u>
Total	<u>\$539,220</u>

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

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

Long-Term Debt

Following is a summary of the outstanding long-term liabilities at August 31, 2013. 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>2013</u>
Unlimited Tax Refunding Bonds – Series 2012	\$722,000
Unlimited Tax Qualified School Construction Bonds, Series 2011	1,578,000
Net Premiums and Accrued Interest	<u>20,650</u>
Total	<u>\$2,320,650</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 2014 budget and tax rates. Following are some items considered:

- Student enrollment for 2013-2014 is expected to be similar to 2012-2013.
- Revenue available for general operations from ad valorem taxes were projected to be less than the 2012-2013 tax revenues, primarily due to a budgeted decrease in delinquent collections.
- Preliminary estimates of State foundation program entitlements for the General Fund for the 2013-2014 school year indicate that the District should receive approximately \$1.9 million, which is similar to the actual revenue for the 2012-2013 school year.
- No significant new programs were added and no significant changes to existing programs were planned for 2013-2014.

The District's budget as approved provides for total General Fund expenditures of \$5,232,958, and includes no budget for capital expenditures for building renovations. No district wide salary increases were approved, other than the normal increments for step increases for professional personnel. Non-professional personnel not included in the salary schedules were given a 3.5% increase in salary, and the \$600 per employee payment to help offset the increase in employee health insurance cost was continued. As adopted, the budget for 2013-2014 for the General Fund represents an 8.3% increase over the 2012-2013 actual expenditures, excluding capital expenditures for building improvements made in 2012-2013. The District's overall tax rate for the fiscal year 2013-2014 is \$1.17/\$100 valuation for M & O and \$0.0635/\$100 valuation for Debt Service, for a total rate of \$1.2335/\$100 valuation, an increase of \$0.0036/\$100 valuation from the year 2012-2013 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.

BASIC FINANCIAL STATEMENTS

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF NET POSITION
 AUGUST 31, 2013

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 1,015,612
1120 Current Investments	1,506,935
1220 Property Taxes Receivable (Delinquent)	1,035,406
1230 Allowance for Uncollectible Taxes	(465,932)
1240 Due from Other Governments	582,660
Capital Assets:	
1510 Land	40,500
1520 Buildings, Net	4,601,883
1530 Furniture and Equipment, Net	275,960
1550 Leased Property Under Capital Leases, Net	19,344
1000 Total Assets	8,612,368
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	12,705
1700 Total Deferred Outflows of Resources	12,705
LIABILITIES	
2110 Accounts Payable	391
2160 Accrued Wages Payable	96,430
2200 Accrued Expenses	2,783
2300 Unearned Revenue	3,325
Noncurrent Liabilities	
2501 Due Within One Year	247,253
2502 Due in More Than One Year	2,073,397
2000 Total Liabilities	2,423,579
NET POSITION	
3200 Net Investment in Capital Assets	2,631,995
3820 Restricted for Federal and State Programs	81,140
3850 Restricted for Debt Service	115,512
3900 Unrestricted	3,372,847
3000 Total Net Position	\$ 6,201,494

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, 2013

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 3,118,390	\$ 163,545	\$ 395,729	\$ (2,559,116)
12 Instructional Resources and Media Services	45,773	-	1,254	(44,519)
13 Curriculum and Staff Development	32,744	-	20,383	(12,361)
21 Instructional Leadership	81,077	-	23,366	(57,711)
23 School Leadership	256,969	-	18,888	(238,081)
31 Guidance, Counseling and Evaluation Services	60,154	-	4,173	(55,981)
33 Health Services	57,971	-	3,940	(54,031)
34 Student (Pupil) Transportation	264,556	-	12,306	(252,250)
35 Food Services	370,576	74,255	233,444	(62,877)
36 Extracurricular Activities	312,123	12,005	7,763	(292,355)
41 General Administration	341,998	-	13,844	(328,154)
51 Facilities Maintenance and Operations	622,765	-	20,106	(602,659)
52 Security and Monitoring Services	4,814	-	-	(4,814)
53 Data Processing Services	13,153	-	57	(13,096)
61 Community Services	469	-	469	-
72 Debt Service - Interest on Long Term Debt	114,741	-	77,874	(36,867)
73 Debt Service - Bond Issuance Cost and Fees	826	-	-	(826)
93 Payments related to Shared Services Arrangements	157,048	36,311	-	(120,737)
99 Other Intergovernmental Charges	87,804	-	-	(87,804)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 5,943,951</u>	<u>\$ 286,116</u>	<u>\$ 833,596</u>	<u>(4,824,239)</u>
Data Control Codes	General Revenues:			
MT	Property Taxes, Levied for General Purposes			3,029,052
DT	Property Taxes, Levied for Debt Service			156,000
SF	State Aid - Formula Grants			1,949,094
GC	Grants and Contributions not Restricted			5,351
IE	Investment Earnings			7,538
MI	Miscellaneous Local and Intermediate Revenue			158,082
TR	Total General Revenues			<u>5,305,117</u>
CN	Change in Net Position			480,878
NB	Net Position - Beginning			5,793,136
PA	Prior Period Adjustment-Debt Issuance Cost			(72,520)
NE	Net Position--Ending			<u>\$ 6,201,494</u>

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

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2013

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 885,396	\$ 87,798	\$ 42,418	\$ 1,015,612
1120 Investments - Current	1,506,935	-	-	1,506,935
1220 Property Taxes - Delinquent	981,139	54,267	-	1,035,406
1230 Allowance for Uncollectible Taxes (Credit)	(441,512)	(24,420)	-	(465,932)
1240 Receivables from Other Governments	576,302	-	6,358	582,660
1260 Due from Other Funds	-	120	39,537	39,657
1000 Total Assets	<u>\$ 3,508,260</u>	<u>\$ 117,765</u>	<u>\$ 88,313</u>	<u>\$ 3,714,338</u>
LIABILITIES				
2110 Accounts Payable	\$ 391	\$ -	\$ -	\$ 391
2160 Accrued Wages Payable	92,701	-	3,729	96,430
2170 Due to Other Funds	39,657	-	-	39,657
2200 Accrued Expenditures	2,664	-	119	2,783
2300 Unearned Revenues	-	-	3,325	3,325
2000 Total Liabilities	<u>135,413</u>	<u>-</u>	<u>7,173</u>	<u>142,586</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	479,608	25,797	-	505,405
2600 Total Deferred Inflows of Resources	<u>479,608</u>	<u>25,797</u>	<u>-</u>	<u>505,405</u>
FUND BALANCES				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	81,140	81,140
3480 Retirement of Long-Term Debt	-	91,968	-	91,968
Assigned Fund Balance:				
3550 Construction	900,000	-	-	900,000
3570 Capital Expenditures for Equipment	350,000	-	-	350,000
3590 Other Assigned Fund Balance	450,000	-	-	450,000
3600 Unassigned Fund Balance	1,193,239	-	-	1,193,239
3000 Total Fund Balances	<u>2,893,239</u>	<u>91,968</u>	<u>81,140</u>	<u>3,066,347</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 3,508,260</u>	<u>\$ 117,765</u>	<u>\$ 88,313</u>	<u>\$ 3,714,338</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 POSITION
AUGUST 31, 2013

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	3,066,347
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds.		4,937,687
2 Property taxes receivable which are not available to pay for current period expenditures are deferred in the governmental funds balance sheet.		505,405
3 Payables for unmatured bond principal are not reported in the governmental funds.		(2,300,000)
4 Accrued interest and unamortized bond premiums with respect to long term debt are not reported in the governmental funds.		(20,650)
5 Deferred amounts from refunding, net of amortization, is not reported in the governmental funds.		12,705
19 Net Assets of Governmental Activities	\$	6,201,494

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, 2013

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds	
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 3,424,005	\$ 165,434	\$ 74,255	\$ 3,663,694
5800	State Program Revenues	2,139,581	-	96,575	2,236,156
5900	Federal Program Revenues	5,351	77,874	468,660	551,885
5020	Total Revenues	<u>5,568,937</u>	<u>243,308</u>	<u>639,490</u>	<u>6,451,735</u>
EXPENDITURES:					
Current:					
0011	Instruction	2,593,451	-	331,765	2,925,216
0012	Instructional Resources and Media Services	45,773	-	-	45,773
0013	Curriculum and Instructional Staff Development	12,422	-	20,322	32,744
0021	Instructional Leadership	60,466	-	20,611	81,077
0023	School Leadership	242,963	-	5,646	248,609
0031	Guidance, Counseling and Evaluation Services	60,154	-	-	60,154
0033	Health Services	57,971	-	-	57,971
0034	Student (Pupil) Transportation	219,122	-	3,306	222,428
0035	Food Services	-	-	365,322	365,322
0036	Extracurricular Activities	292,892	-	-	292,892
0041	General Administration	339,657	-	-	339,657
0051	Facilities Maintenance and Operations	645,360	-	-	645,360
0052	Security and Monitoring Services	4,814	-	-	4,814
0053	Data Processing Services	13,153	-	-	13,153
0061	Community Services	-	-	469	469
Debt Service:					
0071	Principal on Long Term Debt	-	239,000	-	239,000
0072	Interest on Long Term Debt	-	115,672	-	115,672
0073	Bond Issuance Cost and Fees	-	826	-	826
Capital Outlay:					
0081	Facilities Acquisition and Construction	489,230	-	-	489,230
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	157,048	-	-	157,048
0099	Other Intergovernmental Charges	87,804	-	-	87,804
6030	Total Expenditures	<u>5,322,280</u>	<u>355,498</u>	<u>747,441</u>	<u>6,425,219</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>246,657</u>	<u>(112,190)</u>	<u>(107,951)</u>	<u>26,516</u>
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	-	116,545	116,545
8911	Transfers Out (Use)	(116,545)	-	-	(116,545)
7080	Total Other Financing Sources (Uses)	<u>(116,545)</u>	<u>-</u>	<u>116,545</u>	<u>-</u>
1200	Net Change in Fund Balances	130,112	(112,190)	8,594	26,516
0100	Fund Balance - September 1 (Beginning)	<u>2,763,127</u>	<u>204,158</u>	<u>72,546</u>	<u>3,039,831</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 2,893,239</u>	<u>\$ 91,968</u>	<u>\$ 81,140</u>	<u>\$ 3,066,347</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, 2013

Total Net Change in Fund Balances - Governmental Funds	\$	26,516
Current year capital outlays are expenditures in the fund statements but increase capital assets in the statement of activities.		539,220
Depreciation of capital assets is included in the statement of activities but not in the fund statements.		(297,883)
Repayment of long term debt principal is an expenditure in the fund statements but reduces the liability in the statement of net assets.		239,000
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.		(26,906)
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.		931
Change in Net Assets of Governmental Activities	<u>\$</u>	<u>480,878</u>

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

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 AUGUST 31, 2013

EXHIBIT D-1

	Private Purpose Trust Fund	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 1,000	\$ 80,020
Investments - Current	62,913	-
Total Assets	63,913	\$ 80,020
LIABILITIES		
Due to Student Groups	-	\$ 80,020
Total Liabilities	-	\$ 80,020
NET POSITION		
Restricted for Scholarships	63,913	
Total Net Position	\$ 63,913	

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 POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2013

	Private Purpose Trust Fund
ADDITIONS:	
Investment Earnings	\$ 188
Total Additions	<u>188</u>
DEDUCTIONS:	
Scholarships	<u>1,000</u>
Total Deductions	<u>1,000</u>
Change in Net Position	(812)
Total Net Position September 1 (Beginning)	<u>64,725</u>
Total Net Position August 31 (Ending)	<u><u>\$ 63,913</u></u>

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

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HULL-DAISETTA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2013

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 Position 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 Net Position.

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 the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources. The determination of whether resources should be classified as restricted in the government-wide statement of net position begins at the fund level.

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.

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.

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.

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, and any other charges resulting from refunding, 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 recognize 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 are 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 Balances of Governmental Funds – Fund balances of the governmental funds are classified as follows:

- 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. Assigned fund balance can be established through adoption or amendment of the budget for a specific purpose (such as purchase of fixed assets, construction, or other purposes).

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

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 position and statement of activities.

8. *Change in Accounting Principles* – The Hull-Daisetta Independent School District implemented two statements of the Governmental Accounting Standards Board (GASB) this year – GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. These two statements:

- Classified items that are a consumption of net assets applicable to a future reporting period as deferred resource outflows,
- Classified items that are an acquisition of net assets applicable to a future reporting period as deferred resource inflows,
- Renamed all “Statement of Net Asset” to “Statement of Net Position”,
- Required all bond issuance costs to be recorded as expenses in the year the bonds were issued,
- Reclassified the effect of accounting changes adopted to conform to the provision of GASB No. 63 retroactively in statements of net position and balance sheets, if practical, for all prior periods presented. In the period this statement is first applied, the financial statements should disclose the nature of any reclassification and its effect.
- Required reasons for not classifying statements of net position and balance sheet information for prior periods presented to be explained.

The effect of these two statements on the District’s 2013 annual financial statements was:

- To record uncollected property taxes of the governmental funds as deferred inflow of resources, see Exhibit C-1.
 - For refunded debt to record the difference between the reacquisition price and the net carrying amount of the old debt as a deferred outflow of resources and recognize this as a component of interest expense in a systematic and rational manner over the remaining life of the old debt or the life of the new debt, whichever is shorter. This deferred outflow of resources is recorded in the government wide statement of net position (Exhibit A-1).
 - To reclassify bond issuance costs from previous years as a change in accounting principle and deduct it from the beginning net position. The adjustment, totaling \$72,520, is reflected on the government wide statement of activities (Exhibit B-1) as a reduction of the beginning net position.
9. *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.
10. *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, 2013 <u>Fund Balance</u>
Appropriated Budget Funds - Food	
Service Special Revenue Fund	\$69,159
Nonappropriated Budget Funds	<u>11,981</u>
All Special Revenue Funds	<u>\$81,140</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, 2013, 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, 2013, 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	-
Deposits at Hull State Bank - Certificates of Deposit – Non Negotiable	Less than 1 Year	<u>1,569,824</u>	100%
Total Investments		<u>\$1,569,848</u>	100%

The Lone Star Investment Pool (Lone Star) is a local government investment “pool” organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. 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 investment in Lone Star is 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, 2013, 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, which is rated AAA 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.

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 above.

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 \$1.2299, with \$1.17 for general fund maintenance and operations, and \$0.0599 for debt service. The rate was applied to a total net assessed value of \$259,897,623.

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, 2013 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	\$39,537
Debt Service Fund	0	120
Special Revenue Funds:		
General Fund	39,537	0
Debt service Fund:		
General Fund	<u>120</u>	<u>0</u>
TOTAL	<u>\$39,657</u>	<u>\$39,657</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>\$116,545</u>	Budgeted Transfer

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2013, 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	\$981,139	\$576,302	\$ 0	\$1,557,441
Debt Service Fund	54,267	0	120	54,387
Other Nonmajor Funds	<u>0</u>	<u>6,358</u>	<u>39,537</u>	<u>45,895</u>
Total	<u>\$1,035,406</u>	<u>\$582,660</u>	<u>\$39,657</u>	<u>\$1,657,723</u>
Amount not scheduled for collection during the subsequent year				
	<u>\$465,932</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$465,932</u>

Payables at August 31, 2013, were as follows:

	<u>Accounts Payable</u>	<u>Salaries and Benefits</u>	<u>Accrued Liabilities</u>	<u>Due To Other Funds</u>	<u>Total Payables</u>
Governmental Activities:					
General Fund	\$391	\$92,701	\$2,664	\$39,657	\$135,413
Nonmajor Funds	<u>0</u>	<u>3,729</u>	<u>119</u>	<u>0</u>	<u>3,848</u>
Total	<u>\$391</u>	<u>\$96,430</u>	<u>\$2,783</u>	<u>\$39,657</u>	<u>\$139,261</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, 2013, 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	<u>\$40,500</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$40,500</u>
Total Capital Assets Not Being Depreciated	<u>\$40,500</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$40,500</u>
Capital Assets Being Depreciated:				
Buildings and Improvements	\$8,890,825	\$434,353	\$ 0	\$9,325,178
Furniture and Equipment	944,394	104,867	0	1,049,261
Capital Lease Property	<u>545,062</u>	<u>0</u>	<u>0</u>	<u>545,062</u>
Total Capital Assets Being Depreciated	<u>\$10,380,281</u>	<u>\$539,220</u>	<u>\$ 0</u>	<u>\$10,919,501</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(\$4,476,475)	(\$246,820)	\$ 0	(\$4,723,295)
Furniture and Equipment	(729,700)	(43,601)	0	(773,301)
Capital Lease Property	<u>(518,256)</u>	<u>(7,462)</u>	<u>0</u>	<u>(525,718)</u>
Total Accumulated Depreciation	<u>(\$5,724,431)</u>	<u>(\$297,883)</u>	<u>\$ 0</u>	<u>(\$6,022,314)</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital Assets Being Depreciated - Net	\$4,655,850	\$241,337	\$ 0	\$4,897,187
Governmental Activity Capital Assets - Net	\$4,696,350	\$241,337	\$ 0	\$4,937,687

Depreciation expense was charged to governmental functions as follows:

Instruction	\$193,174
School Leadership	8,360
Student (Pupil) Transportation	42,128
Food Services	19,290
Cocurricular/Extracurricular Activities	31,521
General Administration	2,341
Plant Maintenance and Operation	1,069
 Total Depreciation Expense	 <u>\$297,883</u>

G. LONG-TERM LIABILITIES

Long term liabilities include 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.

During the fiscal year 2011, 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 purchaser of the bonds to receive federal rebates each year, which will be available to reduce the 5.27% coupon rate.

The scheduled rebate, which was available to offset the coupon rate of 5.27%, was 5.05% for the payment in fiscal year 2012. Due to the effect of the federal sequester, which required certain automatic reductions in federal funding as of March 1, 2013, the subsidy credit available to offset the District's scheduled interest payment due July 1, 2013, was reduced by 8.7%. Thus, the original scheduled credit of \$85,294 was reduced to \$77,874, resulting in a net interest cost to the District of \$11,136, an increase from the scheduled net cost of \$3,716.

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:					
Unlimited Tax Refunding Bonds, Series 2012, 5.03% and 2.15%	\$850,000	\$ 0	(128,000)	\$722,000	\$134,000
Unlimited Tax Qualified School Construction Bonds, Series 2011, 5.27% Coupon Less 5.05% Rebate	1,689,000	0	(111,000)	1,578,000	111,000
Issuance Premiums, 2012 Refunding Bonds	<u>22,485</u>	<u>\$ 0</u>	<u>(4,088)</u>	<u>18,397</u>	<u>0</u>
Total Bonds Payable	\$2,561,485	\$ 0	(\$243,088)	\$2,318,397	\$245,000

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Other Liabilities - Accrued Interest	<u>\$1,920</u>	<u>\$2,253</u>	<u>(\$1,920)</u>	<u>\$2,253</u>	<u>\$2,253</u>
Governmental Activities - Total Long Term Liabilities	<u>\$2,563,405</u>	<u>\$2,253</u>	<u>(\$245,008)</u>	<u>\$2,320,650</u>	<u>\$247,253</u>
Deferred Charges for Refunding - Deferred Amount – 2012 Refunding Bonds	<u>(\$15,529)</u>	<u>\$ 0</u>	<u>\$2,824</u>	<u>(\$12,705)</u>	<u>\$ 0</u>

Following are future requirements of the long-term liabilities:

<u>Year ended 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>
2014	\$134,000	20,073	\$154,073	\$111,000	\$10,405	\$121,405
2015	141,000	13,157	154,157	111,000	9,672	120,672
2016	146,000	8,041	154,041	112,000	8,941	120,941
2017	149,000	4,870	153,870	112,000	8,203	120,203
2018	152,000	1,634	153,634	112,000	7,463	119,463
2019-2023	0	0	0	564,000	26,203	590,203
2024-2027	<u>0</u>	<u>0</u>	<u>0</u>	<u>456,000</u>	<u>7,517</u>	<u>463,517</u>
Totals	<u>\$722,000</u>	<u>\$47,775</u>	<u>\$769,775</u>	<u>\$1,578,000</u>	<u>\$78,404</u>	<u>\$1,656,404</u>

*Interest on Qualified School Construction Bonds is shown net of the federal rebate of approximately 4.61% (rebate rate for 2013 after the sequester reduction). The actual rebate available for subsequent years has not been determined.

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 2013 were \$65,020.

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 2013, 2012 and 2011, 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, 6.0% for September, 2011 through August 31, 2012, and 6.4% effective September 1, 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, 2013, 2012, and 2011, were \$166,399, \$155,549, and \$174,390, respectively. The Hull-Daisetta Independent School District paid additional state contributions for the years ended August 31, 2013, 2012, and 2011, in the amount of \$21,580, \$27,500, and \$44,051, 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% (reduced to 0.5% effective September 1, 2012) and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2013, 2012 and 2011. 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 2013, 2012 and 2011, the State's contributions to TRS-Care with respect to the Hull-Daisetta ISD payroll were \$13,000, \$29,863, and \$32,762, respectively, the active member contributions were \$18,933, \$19,411, and \$21,295, respectively, and the school district's contributions were \$16,020, \$16,425, and \$18,020, 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 \$11,088.

K. DUE FROM OTHER GOVERNMENTS

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, 2013, are summarized below. All federal grants shown below are passed through the TEA and are reported on the fund financial statements as Receivables from Other Governments.

<u>Fund</u>	<u>State Funding</u>	<u>Federal Grants</u>	<u>Total</u>
General	\$576,302	\$ 0	\$576,302
Special Revenue	<u>0</u>	<u>6,358</u>	<u>6,358</u>
Total	<u>\$576,302</u>	<u>\$6,358</u>	<u>\$582,660</u>

L. 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 Fund	Special Revenue Funds	Debt Service Fund	Total
Property Taxes	\$3,053,829	\$ 0	\$158,128	\$3,211,957
Penalties, Interest and Other Tax Related Income	104,649	0	6,276	110,925
Investment Income	6,508	0	1,030	7,538
Food Sales	0	74,255	0	74,255
Co-curricular Student Activities	12,005		0	12,005
Insurance Proceeds	47,156	0	0	47,156
SSA-Fiscal Agent Reimbursement	36,311	0	0	36,311
Tuition	80,967	0	0	80,967
Other	<u>82,580</u>	<u>0</u>	<u>0</u>	<u>82,580</u>
Total	<u>\$3,424,005</u>	<u>\$74,255</u>	<u>\$165,434</u>	<u>\$3,663,694</u>

M. LITIGATION AND CONTINGENCIES

At August 31, 2013, 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 2012-2013 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.

N. 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 2013, 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, 2013, 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, 2012, 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, 2013:

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, 2013, 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, 2013, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contribution and reimbursable aggregate deductibles.

O. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District participates in the Southeast Texas Cooperative, a shared services arrangement for special education. The Liberty Independent School District is the fiscal agent manager and is responsible for reporting all financial activities of the 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 \$136,291. 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 \$20,757 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.

P. SINGLE AUDIT REQUIREMENTS

As specified by standards included in the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, a governmental entity with fiscal year expenditures for federal awards in excess of \$500,000 is subject to a single audit. Current year expenditures by the District relative to federal programs which are subject to the single audit provision were less than the \$500,000 cumulative expenditure criteria, thus the District was not required to have a single audit, and has not included the schedule of expenditures of federal awards and related audit opinions in this report. Following is a reconciliation of total federal revenue reported on the Statement of Revenues, Expenditure, and Changes in Fund Balance, Governmental Funds (Exhibit C-3) to programs covered by the Single Audit provisions:

Total Federal Program Revenues per Exhibit C-3	\$551,885
Amount reported in the Debt Service Fund relative to federal tax credits on Qualified School Construction Bonds under Section 54A of the Internal Revenue Code – not includable as federal awards subject to the Single Audit Act	<u>77,874</u>
Federal Program Awards subject to the Single Audit Act and OMB A-133	<u>\$474,011</u>

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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, 2013

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	\$ 3,121,551	\$ 3,121,551	\$ 3,424,005	\$ 302,454
5800	State Program Revenues	2,016,565	2,016,565	2,139,581	123,016
5900	Federal Program Revenues	-	-	5,351	5,351
5020	Total Revenues	5,138,116	5,138,116	5,568,937	430,821
EXPENDITURES:					
Current:					
0011	Instruction	2,608,718	2,594,518	2,593,451	1,067
0012	Instructional Resources and Media Services	53,532	50,532	45,773	4,759
0013	Curriculum and Instructional Staff	13,450	13,450	12,422	1,028
0021	Instructional Leadership	57,484	60,483	60,466	17
0023	School Leadership	259,392	249,392	242,963	6,429
0031	Guidance, Counseling and Evaluation Services	66,159	66,159	60,154	6,005
0033	Health Services	62,497	61,497	57,971	3,526
0034	Student (Pupil) Transportation	246,305	246,306	219,122	27,184
0036	Extracurricular Activities	283,366	295,666	292,892	2,774
0041	General Administration	346,821	346,821	339,657	7,164
0051	Facilities Maintenance and Operations	777,192	724,592	645,360	79,232
0052	Security and Monitoring Services	8,000	8,000	4,814	3,186
0053	Data Processing Services	-	14,200	13,153	1,047
Capital Outlay:					
0081	Facilities Acquisition and Construction	62,155	502,155	489,230	12,925
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of	141,500	157,100	157,048	52
0099	Other Intergovernmental Charges	90,000	88,000	87,804	196
6030	Total Expenditures	5,076,571	5,478,871	5,322,280	156,591
1100	Excess (Deficiency) of Revenues Over Expenditures	61,545	(340,755)	246,657	587,412
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out (Use)	(137,445)	(116,545)	(116,545)	-
7080	Total Other Financing Sources (Uses)	(137,445)	(116,545)	(116,545)	-
1200	Net Change in Fund Balances	(75,900)	(457,300)	130,112	587,412
0100	Fund Balance - September 1 (Beginning)	2,763,127	2,763,127	2,763,127	-
3000	Fund Balance - August 31 (Ending)	\$ 2,687,227	\$ 2,305,827	\$ 2,893,239	\$ 587,412

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, 2013

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2004 and prior years	Various	Various	\$ Various
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	1.170000	0.06180	258,774,152
2013 (School year under audit)	1.170000	0.05990	259,897,623
100 TOTALS			

(10) Beginning Balance 9/1/2012	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2013
\$ 303,762	\$ -	\$ 30,711	\$ 1,800	\$ (1,052)	\$ 270,199
53,406	-	2,332	129	(1,026)	49,919
77,640	-	4,650	204	(561)	72,225
87,527	-	3,720	171	(399)	83,237
67,009	-	4,444	304	(119)	62,142
72,249	-	8,285	454	15	63,525
74,837	-	11,275	719	(93)	62,750
128,616	-	16,088	850	(23,835)	87,843
158,565	-	47,469	2,509	(2,899)	105,688
-	3,196,481	2,902,760	148,601	32,758	177,878
<u>\$ 1,023,611</u>	<u>\$ 3,196,481</u>	<u>\$ 3,031,734</u>	<u>\$ 155,741</u>	<u>\$ 2,789</u>	<u>\$ 1,035,406</u>

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2014-2015
 GENERAL AND SPECIAL REVENUE FUNDS
 AUGUST 31, 2013

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	PAYROLL COSTS	\$ -	\$ -	\$ 156,119	\$ 105,757	\$ -	\$ -	\$ 261,876
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	1,715	-	-	-	-	-	1,715
6212	Audit Services	-	-	-	13,900	-	-	13,900
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	90,747	-	-	-	-	90,747
6214	Lobbying	-	-	-	-	-	-	-
621X	Other Professional Services	1,486	-	-	-	-	-	1,486
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	6,522	-	-	6,522
6240	Contr. Maint. and Repair	-	-	-	-	98	-	98
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	13,604	-	-	13,604
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	629	-	2,700	4,090	-	-	7,419
6410	Travel, Subsistence, Stipends	4,539	-	3,572	624	-	-	8,735
6420	Ins. and Bonding Costs	3,172	637	-	1,058	-	-	4,867
6430	Election Costs	3,698	-	-	-	-	-	3,698
6490	Miscellaneous Operating	2,574	-	2,588	7,316	-	-	12,478
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	316	316
6000	TOTAL	\$ 17,813	\$ 91,384	\$ 164,979	\$ 152,871	\$ 98	\$ 316	\$ 427,461

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 6,069,721

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10)	\$ 621,757
Total Debt & Lease (6500)	(11)	-
Plant Maintenance (Function 51, 6100-6400)	(12)	611,515
Food (Function 35, 6341 and 6499)	(13)	200,542
Stipends (6413)	(14)	-
Column 4 (above) - Total Indirect Cost		152,871

SubTotal: 1,586,685

Net Allowed Direct Cost \$ 4,483,036

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15)	\$ 9,325,178
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)	\$ 1,049,261
Historical Cost of Furniture & Equipment over 16 years old	(19)	\$ 664,565
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20)	\$ 114,899

(8) NOTE A: No Function 53 expenditures are included in this report on administrative costs.
 \$87,804 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, 2013

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	\$ 54,500	\$ 54,500	\$ 74,255	\$ 19,755
5800	State Program Revenues	1,600	1,600	1,476	(124)
5900	Federal Program Revenues	196,000	196,000	231,968	35,968
5020	Total Revenues	252,100	252,100	307,699	55,599
EXPENDITURES:					
0035	Food Services	313,645	368,645	365,322	3,323
6030	Total Expenditures	313,645	368,645	365,322	3,323
1100	Excess (Deficiency) of Revenues Over Expenditures	(61,545)	(116,545)	(57,623)	58,922
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	61,545	116,545	116,545	-
7080	Total Other Financing Sources (Uses)	61,545	116,545	116,545	-
1200	Net Change in Fund Balances	-	-	58,922	58,922
0100	Fund Balance - September 1 (Beginning)	10,237	10,237	10,237	-
3000	Fund Balance - August 31 (Ending)	\$ 10,237	\$ 10,237	\$ 69,159	\$ 58,922

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, 2013

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	\$ 164,025	\$ 164,025	\$ 165,434	\$ 1,409
5900	Federal Program Revenues	-	-	77,874	77,874
5020	Total Revenues	164,025	164,025	243,308	79,283
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	239,000	245,750	239,000	6,750
0072	Interest on Long Term Debt	30,378	30,378	115,672	(85,294)
0073	Bond Issuance Cost and Fees	1,500	1,500	826	674
6030	Total Expenditures	270,878	277,628	355,498	(77,870)
1200	Net Change in Fund Balances	(106,853)	(113,603)	(112,190)	1,413
0100	Fund Balance - September 1 (Beginning)	204,158	204,158	204,158	-
3000	Fund Balance - August 31 (Ending)	\$ 97,305	\$ 90,555	\$ 91,968	\$ 1,413

COMPLIANCE AND INTERNAL CONTROL

WIGGINS & SMITH

Certified Public Accountants

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

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government 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, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hull Daisetta Independent School District as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 12, 2013.

Internal Control Over Financial Reporting

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

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

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

We did identify certain deficiencies in internal control over financial reporting, described as Finding 2013-1 in the accompanying Schedule of Findings and Management Response, that we consider to be significant deficiencies in internal control.

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*.

Purpose of this Report

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

Wiggins & Smith
WIGGINS & SMITH
Certified Public Accountants

December 12, 2013

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND MANAGEMENT RESPONSE
 FOR THE YEAR ENDED AUGUST 31, 2013

I. Summary of the Auditor's Results

Financial Statements

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
o Material weakness identified?	_____ Yes <u> X </u> No
o Significant deficiency identified that is not considered to be a material weakness?	<u> X </u> Yes _____ None Reported
Noncompliance material to financial statements noted?	_____ Yes <u> X </u> No

II. Financial Statement Findings

Finding 2013-1

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, due to the District's budgeting only the net interest cost for payments related to Qualified School Construction Bonds and not the gross interest cost, with a corresponding budget amount to recognize revenue for the federal credit due.

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

Recommendation - The Debt Service Fund budget should recognize the interest expense due on the QSCB debt at the coupon rate with a corresponding budget for the related revenue. The 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.

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2013

(Prepared by the District's Administration)

Finding 2012-1 Expenditures in excess of budget for Debt Service Fund.

This finding for the fiscal year 2012 was the same problem as noted in the Schedule of Findings and Management Response for the current year. The District response is noted on the following page.

HULL DAISSETTA INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2013

(Prepared by the District's Administration)

Finding 2013-1 Expenditures in excess of budget.

The District will prepare necessary budget amendments for the 2014 fiscal year, to be approved by the board of trustees prior to making expenditures which will exceed budget amounts. The gross interest due on the QSCB Bonds, and the related revenue from federal credits, will be budgeted.

SCHOOLS FIRST QUESTIONNAIRE

Hull Daisetta Independent School District

Fiscal Year 2013

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.	0.00