

**TEXAS CITY INDEPENDENT  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND  
COMPLIANCE REPORT**

**Year Ended August 31, 2014**



**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
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# TEXAS CITY INDEPENDENT SCHOOL DISTRICT

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**CERTIFICATE OF THE BOARD**

**Texas City Independent School District**

Name of School District

**Galveston**

County

**084-906**

Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and approved for the year ended August 31, 2014, at a meeting of the board of trustees of such school district on January 13, 2015.

*Melba L. Anderson*

\_\_\_\_\_  
President of the Board

*Adriana Ryle*

\_\_\_\_\_  
Secretary of the Board



## **FINANCIAL SECTION**





## INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees  
Texas City Independent School District  
Texas City, Texas

### 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 Texas City Independent School District (the "District") as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### *Management's Responsibility for the Financial Statements*

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

#### *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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the 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 above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 7–15 and 52–54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements, and required Texas Education Agency ("TEA") schedules, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

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

To the Board of Trustees  
Texas City Independent School District

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2015, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, slightly slanted style.

Texas City, Texas  
January 13, 2015

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

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## **TEXAS CITY INDEPENDENT SCHOOL DISTRICT**

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

As management of the Texas City Independent School District ("District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2014.

#### **Financial Highlights**

The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$78,427,859 (*net position*). Of this amount, \$40,340,773 (*unrestricted net position*) may be used to meet the District's ongoing obligations to students and creditors.

- The District's total net position increased by \$2,043,303.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$38,696,870, a decrease of \$15,958,844 in comparison with the prior year. The general fund balance increased by \$1,565,045. The child nutrition fund balance decreased by \$1,049,982. The debt service fund balance decreased by \$339,952. The capital projects fund balance decreased by \$16,164,268.
- During the current fiscal year, unassigned fund balance for the general fund increased by \$1,358,565, to \$12,017,520, or 22 percent of general fund expenditures.
- The District's total bonded debt decreased by \$4,785,000 (4 percent) during the current fiscal year as the result of scheduled payments on bond principal.

#### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and other supplementary information in addition to the basic financial statements.

#### **Government-wide financial statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused sick leave).

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

The government-wide financial statements of the District are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include Instruction, Instructional Resources and Media Services, Curriculum and Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Social Work Services, Health Services, Student Transportation, Food Services, Co-curricular/Extracurricular Activities, General Administration, Facilities Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Bond Issuance Costs and Fees, Facilities Repairs and Maintenance, Contracted Instructional Services Between Schools, Payments to Shared Service Arrangements, Payments to Juvenile Justice Alternative Education Programs, and Other Intergovernmental Charges.

**Fund financial statements**

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds**

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains individual governmental funds for general, special revenue, debt service, and capital projects funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, child nutrition fund, debt service fund and capital projects fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in the financial statements. The District adopts an annual appropriated budget for its general fund, debt service fund, and child nutrition fund.

**Proprietary fund**

The District maintains individual internal service funds for workers' compensation insurance coverage and a technology equipment replacement fund. *Internal service funds*, one type of proprietary fund, are an accounting device used to accumulate and allocate costs internally among the District's various funds and functions. Because this service benefits the governmental functions, it has been included within *governmental activities* in the government-wide financial statements.



**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Proprietary fund statements provide the same type of information as the government-wide financial statements, only in more detail. The internal service fund financial statements provide separate information for the Worker's Compensation Insurance Fund and the Technology Equipment Replacement Fund.

**Fiduciary funds**

The fiduciary funds are used to account for resources held for the benefit of students and employees. The District's *private purpose trust fund* is used to account for donations for scholarship funds and the project garden grant in this type of fund. The District's *agency fund* is used to account for resources held in a custodial capacity by the District and consists of funds that are the property of students or others. The fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the District's own programs. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operation.

**Notes to financial statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Required supplementary information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information that further explains and supports the information in the financial statements. The required supplementary information relates to comparison of the original adopted budget, the final amended budget, and the actual amounts for the fiscal year. This is required supplementary information for the general fund and any major special revenue funds.

**Other information**

The combining and individual fund statements and schedules and other supplementary information are presented immediately following the required supplementary information.

**Government-wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows exceeded liabilities by \$78,427,859 at the close of the most recent fiscal year.

A portion of the District's net position, \$35,086,929 reflects its investment in capital assets (e.g., land, buildings and improvements, furniture and equipment, construction in progress), less any outstanding related debt used to acquire those assets. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

As of August 31, 2014, the District's net position included the following:

	<b>Governmental Activities</b>		<b>Percentage Change</b>
	<b>2014</b>	<b>2013</b>	
Current and other assets	\$ 49,021,869	\$ 70,944,231	-31%
Capital assets	148,920,243	135,448,464	10%
<b>Total Assets</b>	<b>197,942,112</b>	<b>206,392,695</b>	<b>-4%</b>
Deferred charge on refunding		45,191	-100%
<b>Total Deferred Outflows of Resources</b>		<b>45,191</b>	<b>-100%</b>
Current liabilities	5,000,328	10,338,166	-52%
Long term liabilities	114,513,925	119,715,164	-4%
<b>Total Liabilities</b>	<b>119,514,253</b>	<b>130,053,330</b>	<b>-8%</b>
Net Position			
Net investment in capital assets	35,086,929	32,623,097	8%
Restricted	3,000,157	5,688,788	-47%
Unrestricted	40,340,773	38,072,671	6%
<b>Total Net Position</b>	<b>\$ 78,427,859</b>	<b>\$ 76,384,556</b>	<b>3%</b>

Net position is restricted for various purposes as follows:

	<b>Governmental Activities</b>		<b>Percentage Change</b>
	<b>2014</b>	<b>2013</b>	
Federal and State Grant Programs	\$ 9,028	\$ 3,346	170%
Food Service	584,522	1,596,800	-63%
Debt Service	2,406,607	3,722,639	-35%
	<b>\$ 3,000,157</b>	<b>\$ 5,322,785</b>	<b>-44%</b>

The remaining balance of unrestricted net position, \$40,340,773, may be used to meet the District's ongoing obligations to students and creditors. At the end of the current fiscal year, the District reports positive balances in net investment in capital assets, restricted, and unrestricted net position. The District's net position increased by \$2,043,303 during the current fiscal year.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Comparative Schedule of Changes in Net Position**  
**For the Years Ended August 31, 2014 and 2013**

	<u>Governmental Activities</u>		<u>Percentage Change</u>
	<u>2014</u>	<u>2013</u>	
<b>Revenues</b>			
<b>Program revenues:</b>			
Charges for services	\$ 6,791,806	\$ 5,795,514	17%
Operating grants	9,466,104	8,743,004	8%
<b>General revenues:</b>			
Property taxes	48,426,491	51,186,323	-5%
State Aid - Formula Grants	8,182,647	5,579,357	47%
Interest earnings	22,063	83,896	-74%
Other	9,698	6,728	44%
<b>Total Revenues</b>	<u>72,898,809</u>	<u>71,394,822</u>	2%
<b>Expenses</b>			
Instruction	32,812,884	31,899,222	3%
Instructional resources and media services	827,369	860,368	-4%
Curriculum and staff development	705,131	710,048	-1%
Instructional leadership	416,039	438,690	-5%
School leadership	3,183,162	3,035,380	5%
Guidance, counseling, and evaluation services	1,761,460	1,729,554	2%
Social work services	132,534	133,551	-1%
Health services	497,296	495,023	0%
Student transportation	1,183,655	1,262,721	-6%
Food services	4,624,853	3,659,785	26%
Extracurricular activities	2,068,490	2,099,533	-1%
General administration	2,375,808	4,768,252	-50%
Facilities maintenance and operations	8,689,804	8,679,420	0%
Security and monitoring services	704,560	619,225	14%
Data processing services	1,232,328	1,306,961	-6%
Community services	189,668	83,597	127%
Interest on long-term debt	4,581,245	4,731,674	-3%
Facilities repair and maintenance	100,488	94,424	6%
Contracted instructional services between schools	4,193,179	3,047,591	38%
Payments related to shared services arrangements	125,218	92,979	35%
Payments to Juvenile Justice Alternative Education Programs	22,959	91,821	-75%
Other governmental charges	427,376	382,770	12%
<b>Total Expenses</b>	<u>70,855,506</u>	<u>70,222,589</u>	1%
Increase (Decrease) in Net Position	2,043,303	1,172,233	74%
<b>Net position - beginning</b>	76,384,556	76,307,424	0%
<b>Prior period adjustment</b>		(1,095,101)	
<b>Net position - ending</b>	<u>\$ 78,427,859</u>	<u>\$ 76,384,556</u>	3%

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Governmental activities**

Governmental activities increased the District's net position by \$2,043,303. Revenues are generated primarily from three sources. Property taxes, state-aid formula grants, and operating grants and contributions represent 91 percent of total revenues. The remaining is generated from charges for services, investment earnings, and miscellaneous revenues.

	<b>Total Revenues</b>	<b>% of Total Revenues</b>
Property taxes	\$ 48,426,491	66%
State Aid - Formula Grants	8,182,647	11%
Operating grants and contributions	9,466,104	13%
Other revenue	6,823,567	9%
<b>Total Revenues</b>	<b>\$ 72,898,809</b>	<b>100%</b>

The primary functional expenses of the District are instruction and facilities maintenance and operations, which represent 59 percent of total expenses. The remaining individual functional categories of expenses are each less than 7 percent of total expenses.

	<b>Total Expenses</b>	<b>% of Total Expenses</b>
Instruction	\$ 32,812,884	46%
Facilities maintenance and operations	8,689,804	12%
Other expenses	29,352,818	42%
<b>Total Expenses</b>	<b>\$ 70,855,506</b>	<b>100%</b>

**Financial Analysis of the Government's Funds**

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds**

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$38,696,870, a decrease of \$15,958,844 in comparison with the prior year. The decrease in ending governmental fund balances is primarily due to continued construction and renovation of school facilities.

The general fund is the chief operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$12,017,520, while total fund balance reached \$34,945,814. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 22 percent of total general fund expenditures, while total fund balance represents 64 percent of that same amount. The fund balance of the District's general fund increased by \$1,565,045 during the current fiscal year.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

The child nutrition fund has a total fund balance of \$584,522, all of which is restricted as a federal grant. The net decrease in the child nutrition fund balance of \$1,049,982 was slightly less than budgeted expectations.

The debt service fund has a total fund balance of \$2,426,378, all of which is restricted for the payment of debt service. The net decrease in the debt service fund balance during the current year of \$339,952 was attributable to scheduled payments on debt principal and a court ordered property tax refund.

The capital projects fund has a fund balance of \$346,890, all of which is restricted for construction, repairs and renovations. The net decrease in the capital projects fund balance during the current year of \$16,164,268 was attributable to continued construction/renovations of school facilities.

**General Fund Budgetary Highlights**

Differences between the original budget and the final amended budget of the general fund can be briefly summarized as follows:

	<b>Budget</b>	
	<b>Original</b>	<b>Final Amended</b>
Total revenues	\$ 52,514,959	\$ 55,601,507
Total expenditures	(53,978,699)	(56,163,986)
Other financing sources (uses)	1,329,689	829,689
Net change in fund balance	<u>\$ (134,051)</u>	<u>\$ 267,210</u>

A budget amendment in the amount of \$2,328,000 was necessary to increase revenues and expenditures related to the District's reporting of TRS on-behalf.

**Capital Assets and Long-term Liabilities**

**Capital assets**

The District's investment in capital assets for its governmental type activities as of August 31, 2014, includes land, buildings and improvements, furniture and equipment, and construction in progress. The investment in capital assets for the current fiscal year was \$148,920,243. The following table summarizes the investment in capital assets as of August 31, 2014 and 2013.

	<b>2014</b>	<b>2013</b>
Land	\$ 1,465,680	\$ 1,465,680
Buildings and improvements	175,448,990	143,702,104
Furniture and equipment	14,155,785	13,837,010
Construction in progress		15,036,767
<b>Total</b>	<u>191,070,455</u>	<u>174,041,561</u>
Accumulated depreciation	<u>(42,150,212)</u>	<u>(38,593,097)</u>
<b>Net capital assets</b>	<u>\$ 148,920,243</u>	<u>\$ 135,448,464</u>

Additional information on the District's capital assets can be found in the notes to the financial statements.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Long-term liabilities**

At the end of the current fiscal year, the District had \$109,775,000 in bonded debt outstanding, a decrease of \$4,785,000 over the previous year. Except for the District's Unlimited Tax School Building Bonds, Series 2009, the District's outstanding bonds are rated "AAA" by Standard and Poor's and "Aaa" by Moody's Investor Service based on the guarantee of the Permanent School Fund of the State of Texas. Due to the closure of the Permanent School Fund guarantee in 2009, the Series 2009 Bonds were sold based on the District's underlying Standard and Poor's rating. The District's underlying ratings are "AA" by Standard and Poor's and "Aa2" by Moody's Investor Service.

Changes in bonds payable for the year ended August 31, 2014 are as follows:

<b>Outstanding 09/01/13</b>	<b>Issued</b>	<b>Retired</b>	<b>Outstanding 08/31/14</b>
<u>\$ 114,560,000</u>	<u>\$</u>	<u>\$ (4,785,000)</u>	<u>\$ 109,775,000</u>

Additional information on the District's long-term liabilities can be found in the notes to the financial statements.

**Economic Factors and Next Year's Budgets and Rates**

- Appraised taxable value used for the 2014-15 fiscal year increased approximately \$240 million, or 6% from the previous year. The change in taxable value is primarily due to a decrease in exemptions of \$413.5 million, resulting in an increase in taxable value. Exemptions for pollution control equipment decreased by \$248 million and exemptions for Foreign Trade Zone decreased by \$160 million. Property tax revenues continue to remain uncertain due to potential litigation relating to property values assigned to some of the district's largest taxpayers.
- The tax rate for the 2014-2015 fiscal year is \$1.2616 per \$100 valuation (\$1.04000 for M&O, \$.2216 for I&S). In 2007-2008, the Texas Legislature compressed M&O tax rates by 33.33 percent, but allowed an additional four cents to be assessed at local discretion. These four pennies are not subject to Chapter 41 recapture provisions, otherwise known as "Robin Hood"; therefore these four cents have been commonly referred to as "super pennies".
- The 2014-2015 adopted budget to cover the maintenance and operations of the district (general fund) is \$54,475,727. With anticipated revenues of \$52,937,904, the District anticipates a budget deficit of \$1,537,823 which is offset by the results of operations for the 2013-2014 fiscal year. The budgeted deficit is the result of a decrease of approximately \$2 million in foreign trade zone revenue compared to the 2013-14 school year and salary increases totaling approximately \$1.4 million. Based on an estimated enrollment of 6,363 students, the District's general fund expenditures are expected to be \$8,561.32 per student for 2014-2015.
- The 2014-2015 adopted budget to cover the debt payments and associated debt expenditures is \$9,751,650. The I&S tax rate of \$0.2216 will generate approximately \$9,024,393 towards the debt payment and the remainder of the payment, \$727,257, will be funded with I&S fund balance.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS** *(continued)*

While Texas City Independent School District is nearly built out, there are still some residential developments currently under construction in selected locations within the District. Most of the sites under construction are single family residences. There are also commercial improvements in planning stages or under construction within Texas City Independent School District.

**Requests for Information**

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 demonstrate 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 Texas City Independent School District, 1700 Ninth Avenue North, Texas City, Texas 77590.

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## **BASIC FINANCIAL STATEMENTS**

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**

*Exhibit A-1*

**STATEMENT OF NET POSITION**

August 31, 2014

<b>Data Control Codes</b>	<b>Governmental Activities</b>
<b>Assets</b>	
1110 Cash and cash equivalents	\$ 44,318,242
1225 Property taxes receivables, net	1,653,542
1240 Due from other governments	1,145,468
1267 Due from fiduciary funds	111
1290 Other receivables, net	18,678
1300 Inventories	158,023
1410 Prepaid items	1,727,805
Capital assets not subject to depreciation:	
1510 Land	1,465,680
Capital assets net of depreciation:	
1520 Buildings and improvements, net	142,307,680
1530 Furniture and equipment, net	5,146,883
<b>1000 Total Assets</b>	<b>197,942,112</b>
<b>Liabilities</b>	
2110 Accounts payable	2,356,249
2140 Interest payable	207,550
2150 Payroll deductions and withholdings	2,171
2160 Accrued wages payable	14,001
2180 Due to other governments	1,124,767
2200 Accrued expenses	1,277,765
2300 Unearned revenue	17,825
Noncurrent Liabilities:	
2501 Due within one year	5,058,430
2502 Due in more than one year	109,455,495
<b>2000 Total Liabilities</b>	<b>119,514,253</b>
<b>Net Position</b>	
3200 Net invested in capital assets	35,086,929
Restricted for:	
3820 Federal and state programs	9,028
3840 Food service	584,522
3850 Debt service	2,406,607
3900 Unrestricted	40,340,773
<b>3000 Total net position</b>	<b>\$ 78,427,859</b>

See Notes to the Financial Statements

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended August 31, 2014

Exhibit B-1

Data Control Codes	Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Operating Grants and Contributions	Primary Government
					Governmental Activities
	<b>Governmental activities:</b>				
11	Instruction	\$ 32,812,884	\$ 474,780	\$ 4,770,296	\$ (27,567,808)
12	Instructional resources and media services	827,369	50,317	32,866	(744,186)
13	Curriculum and staff development	705,131	79,069	135,149	(490,913)
21	Instructional leadership	416,039		20,779	(395,260)
23	School leadership	3,183,162	28,753	237,966	(2,916,443)
31	Guidance, counseling, and evaluation services	1,761,460		287,526	(1,473,934)
32	Social work services	132,534		66,032	(66,502)
33	Health services	497,296		398,800	(98,496)
34	Student transportation	1,183,655		98,116	(1,085,539)
35	Food services	4,624,853	1,009,658	3,071,926	(543,269)
36	Extracurricular activities	2,068,490	5,085,345	53,967	3,070,822
41	General administration	2,375,808	28,753	70,323	(2,276,732)
51	Facilities maintenance and operations	8,689,804	35,131	38,067	(8,616,606)
52	Security and monitoring services	704,560			(704,560)
53	Data processing services	1,232,328		30,792	(1,201,536)
61	Community services	189,668		146,852	(42,816)
72	Interest on long-term debt	4,581,245			(4,581,245)
81	Facilities repairs and maintenance	100,488		6,647	(93,841)
91	Contracted instructional services between schools	4,193,179			(4,193,179)
93	Payments related to shared services arrangements	125,218			(125,218)
95	Payments to Juvenile Justice Alternative Education Programs	22,959			(22,959)
99	Other governmental charges	427,376			(427,376)
<b>TG</b>	<b>Total governmental activities</b>	<u>\$ 70,855,506</u>	<u>\$ 6,791,806</u>	<u>\$ 9,466,104</u>	<u>(54,597,596)</u>

Data Control Codes		
	<b>General revenues:</b>	
	Taxes:	
MT	Property taxes, levied for general purposes	39,020,109
DT	Property taxes, levied for debt service	9,406,382
SF	State-aid formula grants	8,182,647
IE	Investment earnings	22,063
MI	Miscellaneous	9,698
TR	<b>Total general revenues</b>	<u>56,640,899</u>
CN	Change in net position	2,043,303
NB	<b>Net position - beginning</b>	<u>76,384,556</u>
NE	<b>Net position - ending</b>	<u>\$ 78,427,859</u>

See Notes to the Financial Statements

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**

**BALANCE SHEET**

**GOVERNMENTAL FUNDS**

August 31, 2014

<b>Data Control Codes</b>		<b>General Fund</b>	<b>Child Nutrition Fund</b>	<b>Debt Service Fund</b>
<b>Assets</b>				
1110	Cash and cash equivalents	\$ 32,560,338	\$ 88,705	\$ 2,426,377
1120	Investments		807,404	
	Receivables:			
1220	Delinquent property taxes receivables	2,753,218		357,466
1230	Allowance for uncollectible taxes (credit)	(1,287,456)		(169,686)
1240	Receivables from other governments	208,228	67,590	
1260	Due from other funds	2,071,965	4,031	
1290	Other receivables	425	18,253	
1300	Inventories, at cost	133,453	24,570	
1410	Prepaid items	1,639,968		
<b>1000</b>	<b>Total Assets</b>	<b>\$ 38,080,139</b>	<b>\$ 1,010,553</b>	<b>\$ 2,614,157</b>
<b>Liabilities, Deferred Inflows, and Fund Balance</b>				
<b>Liabilities:</b>				
2110	Accounts payable	\$ 538,167	\$ 425,948	\$
2150	Payroll deduction and withholdings payable	2,171		
2160	Accrued wages payable			
2170	Due to other funds	3,458	83	
2180	Payable to other governments	1,124,767		
2200	Accrued expenditures			
2300	Unearned revenues			
<b>2000</b>	<b>Total Liabilities</b>	<b>1,668,563</b>	<b>426,031</b>	
<b>Deferred Inflows of Resources</b>				
2600	Unavailable property tax revenues	1,465,762		187,779
	<b>Total Deferred Inflows of Resources</b>	<b>1,465,762</b>		<b>187,779</b>
<b>Fund Balances:</b>				
<b>Nonspendable :</b>				
3410	Inventories	133,453	24,570	
3430	Prepaid items	1,639,968		
<b>Restricted:</b>				
3450	Federal/State grant restrictions		559,952	
3470	Capital acquisitions			
3480	Debt service			2,426,378
<b>Committed :</b>				
3545	Other purposes			
<b>Assigned:</b>				
3590	Other assigned	21,154,873		
3600	<b>Unassigned</b>	<b>12,017,520</b>		
<b>3000</b>	<b>Total fund balances</b>	<b>34,945,814</b>	<b>584,522</b>	<b>2,426,378</b>
<b>4000</b>	<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<b>\$ 38,080,139</b>	<b>\$ 1,010,553</b>	<b>\$ 2,614,157</b>

See Notes to the Financial Statements.

*Exhibit C-1*

<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 2,741,124	\$ 441,870	\$ 38,258,414
		807,404
		3,110,684
		(1,457,142)
	857,220	1,133,038
		2,075,996
		18,678
		158,023
87,837		1,727,805
<u>\$ 2,828,961</u>	<u>\$ 1,299,090</u>	<u>\$ 45,832,900</u>
\$ 1,245,539	\$ 131,342	\$ 2,340,996
		2,171
	14,001	14,001
	742,655	746,196
		1,124,767
1,236,532		1,236,532
	17,826	17,826
<u>2,482,071</u>	<u>905,824</u>	<u>5,482,489</u>
		1,653,541
		1,653,541
		158,023
87,837		1,727,805
	9,028	568,980
259,053		259,053
		2,426,378
	384,238	384,238
		21,154,873
		12,017,520
<u>346,890</u>	<u>393,266</u>	<u>38,696,870</u>
<u>\$ 2,828,961</u>	<u>\$ 1,299,090</u>	<u>\$ 45,832,900</u>

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**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO**  
**STATEMENT OF NET POSITION**  
*August 31, 2014*

*Exhibit C-2*

<b>Data Control Codes</b>		
	<b>Total fund balance, governmental funds</b>	\$ 38,696,870
	Amounts reported for governmental activities in the statement of net position (A-1) are different because:	
<b>1</b>	Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Capital assets at historical cost, net of accumulated depreciation, where applicable.	148,920,243
<b>2</b>	Property taxes receivable have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, these property taxes and related penalty and interest amounts (net of allowance for uncollectible accounts).	1,653,542
	Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
<b>3</b>	General obligation bonds	(109,775,000)
<b>4</b>	Premiums on issuance	(4,405,204)
<b>5</b>	Accrued compensated absences	(333,721)
<b>6</b>	Accrued interest payable	(207,550)
<b>7</b>	Addition of Internal Service fund net position	<u>3,878,679</u>
<b>19</b>	<b>Net position - governmental activities</b>	<u><u>\$ 78,427,859</u></u>

See Notes to the Financial Statements.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - GOVERNMENTAL FUNDS**  
*For the Year Ended August 31, 2014*

<b>Data Control Codes</b>		<b>General Fund</b>	<b>Child Nutrition Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects</b>
<b>Revenues</b>					
5700	Local, intermediate, and out-of-state	\$ 44,125,244	\$ 1,009,829	\$ 9,408,496	\$ 4,030
5800	State program revenues	10,451,484	18,918		
5900	Federal program revenues	345,616	3,053,008		
<b>5020</b>	<b>Total revenues</b>	<u>54,922,344</u>	<u>4,081,755</u>	<u>9,408,496</u>	<u>4,030</u>
<b>Expenditures</b>					
<b>Current:</b>					
0011	Instruction	27,103,344			
0012	Instructional resources and media services	671,449			
0013	Curriculum and staff development	497,881			
0021	Instructional leadership	404,039			
0023	School leadership	2,904,635			
0031	Guidance, counseling and evaluation services	1,540,576			
0032	Social work services	64,699			
0033	Health services	451,815			
0034	Student transportation	1,103,514			
0035	Food services		5,131,737		
0036	Extracurricular activities	1,797,688			
0041	General administration	2,298,060			
0051	Facilities maintenance and operations	8,554,695			
0052	Security and monitoring services	694,109			
0053	Data processing services	1,197,310			
0061	Community services	33,528			
<b>Debt service:</b>					
0071	Principal on long-term debt			4,785,000	
0072	Interest on long-term debt			4,960,700	
0073	Bond issuance costs and fees			2,748	
<b>Capital outlay:</b>					
0081	Facilities acquisition and construction	100,914			16,168,298
<b>Intergovernmental:</b>					
0091	Contracted instructional services	4,193,179			
0092	Incremental costs related to WADA				
0093	Payments related to shared services arrangements	125,218			
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	22,959			
0099	Other governmental charges	427,376			
<b>6030</b>	<b>Total Expenditures</b>	<u>54,186,988</u>	<u>5,131,737</u>	<u>9,748,448</u>	<u>16,168,298</u>
1100	Excess (deficiency) of revenues over expenditures	<u>735,356</u>	<u>(1,049,982)</u>	<u>(339,952)</u>	<u>(16,164,268)</u>
<b>Other Financing Sources (Uses)</b>					
7915	Transfers in	1,329,689			
8911	Operating transfers out	(500,000)			
<b>7080</b>	<b>Total other financing sources and uses</b>	<u>829,689</u>			
1200	Net change in fund balances	1,565,045	(1,049,982)	(339,952)	(16,164,268)
<b>0100</b>	<b>Fund Balance - beginning</b>	<u>33,380,769</u>	<u>1,634,504</u>	<u>2,766,330</u>	<u>16,511,158</u>
<b>3000</b>	<b>Fund Balance - ending</b>	<u>\$ 34,945,814</u>	<u>\$ 584,522</u>	<u>\$ 2,426,378</u>	<u>\$ 346,890</u>

See Notes to the Financial Statements.



*Exhibit C-3*

<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 719,076	\$ 55,266,675
104,261	10,574,663
<u>3,675,464</u>	<u>7,074,088</u>
<u>4,498,801</u>	<u>72,915,426</u>
3,484,562	30,587,906
48,484	719,933
186,997	684,878
	404,039
126,293	3,030,928
186,232	1,726,808
65,492	130,191
24,226	476,041
86,957	1,190,471
	5,131,737
72,478	1,870,166
27,249	2,325,309
13,808	8,568,503
	694,109
	1,197,310
145,710	179,238
	4,785,000
	4,960,700
	2,748
	16,269,212
	4,193,179
	125,218
	22,959
	<u>427,376</u>
<u>4,468,488</u>	<u>89,703,959</u>
<u>30,313</u>	<u>(16,788,533)</u>
	1,329,689
	<u>(500,000)</u>
	<u>829,689</u>
30,313	(15,958,844)
<u>362,953</u>	<u>54,655,714</u>
<u>\$ 393,266</u>	<u>\$ 38,696,870</u>

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**

*Exhibit C-4*

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE FOR GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Year Ended August 31, 2014**

<u>Data Control Codes</u>		
	Net change in fund balances - total governmental funds (from C-3)	\$ (15,958,844)
	Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay (\$17,028,894) exceeded depreciation (\$3,557,115) in the current period.	
1		13,471,779
2	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(14,695)
3	Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	4,785,000
4	Premiums on bonds issued are treated as other financing sources in the governmental funds. In the government-wide financial statements, premiums are amortized over the life of the bonds.	416,512
	Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
5	Increase in interest payable not recognized in fund statements	8,134
6	Increase in long-term portion of accrued compensated absences	(273)
7	Amortization of deferred charges	(45,191)
8	Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental funds (see D-2).	(619,119)
	<b>Change in net position of governmental activities (see B-1)</b>	<u><u>\$ 2,043,303</u></u>

See Notes to the Financial Statements.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**

*Exhibit D-1*

**STATEMENT OF NET POSITION**

**PROPRIETARY FUNDS**

*August 31, 2014*

<u>Data Control Codes</u>		<u>Governmental Activities - Internal Service Funds</u>
	<b>Assets</b>	
1110	Cash and cash equivalents	\$ 5,264,854
<b>1000</b>	<b>Total Assets</b>	<u>5,264,854</u>
	<b>Liabilities</b>	
	<b>Current Liabilities:</b>	
2110	Accounts payable	15,253
2170	Due to other funds	1,329,689
2200	Accrued expenses	41,233
<b>2000</b>	<b>Total Liabilities</b>	<u>1,386,175</u>
	<b>Net Position</b>	
3900	Unrestricted net position	3,878,679
<b>3000</b>	<b>Total Net Position</b>	<u>\$ 3,878,679</u>

See Notes to the Financial Statements.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**  
*For the Year Ended August 31, 2014*

*Exhibit D-2*

<u>Data Control Codes</u>	<u>Governmental Activities - Internal Service Funds</u>
<b>Operating Revenues</b>	
5700 Charges for Services	\$ 479,476
5020 <b>Total Operating Revenues</b>	<u>479,476</u>
<b>Operating Expenses</b>	
6100 Payroll costs	56,729
6200 Purchased and contracted services	65,128
6300 Supplies and materials	76,562
6400 Claims expense and other operating expenses	<u>71,313</u>
6030 <b>Total Operating Expenses</b>	<u>269,732</u>
1200 Operating Income (Loss)	<u>209,744</u>
<b>Non-Operating Revenues (Expenses)</b>	
7020 Investment earnings	<u>826</u>
<b>Total Nonoperating Revenues (Expenses)</b>	<u>826</u>
Income (Loss) before Transfers	<u>210,570</u>
<b>Transfers</b>	
7915 Transfers in	500,000
8911 Transfers out	<u>(1,329,689)</u>
1200 Change in Net Position	(619,119)
0100 <b>Net Position - beginning</b>	<u>4,497,798</u>
3300 <b>Net Position - ending</b>	<u>\$ 3,878,679</u>

See Notes to the Financial Statements.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
For the Year Ended August 31, 2014

*Exhibit D-3*

	<b>Governmental Activities - Internal Service Funds</b>
<b>Cash Flows from Operating Activities:</b>	
Cash received from customers	\$ 479,476
Cash received from state	
Cash payments for insurance claims	1,221,348
Cash payments to suppliers for goods and services	(127,038)
Cash payments to employees	(57,158)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>1,516,628</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>	
Transfers to other funds	(1,329,689)
Transfers from other funds	500,000
Advances from other funds	
<b>Net Cash Provided by (Used for) Non-Capital Financing Activities</b>	<u>(829,689)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest on investments	826
<b>Net Cash Provided by Investing Activities</b>	<u>826</u>
Net Increase in Cash and Cash Equivalents	687,765
<b>Cash and Cash Equivalents at Beginning of Year</b>	<u>4,577,089</u>
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 5,264,854</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>	
Operating Income (Loss)	\$ 209,744
<b>Change in Assets and Liabilities:</b>	
Increase (decrease) in Accounts Payable	14,652
Increase (decrease) in Accrued Wages Payable	(429)
Increase (decrease) in Interfund Payables	1,329,689
Increase (decrease) in Accrued Expenses	(37,028)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>\$ 1,516,628</u>

See Notes to the Financial Statements

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
*August 31, 2014*

*Exhibit E-1*

<u>Data Control Codes</u>		<u>Private Purpose Trust Funds</u>	<u>Agency Fund</u>
	<b>Assets</b>		
1110	Cash and cash equivalents	\$ 141,757	\$ 171,839
1000	<b>Total Assets</b>	<u>\$ 141,757</u>	<u>\$ 171,839</u>
	<b>Liabilities</b>		
2110	Accounts payable	\$	\$ 5,378
2170	Due to primary government		111
2190	Due to others		166,350
2000	<b>Total Liabilities</b>		<u>\$ 171,839</u>
	<b>Net Position</b>		
3800	Restricted	<u>\$ 141,757</u>	

See Notes to the Financial Statements.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
*For the Year Ended August 31, 2014*

*Exhibit E-2*

	<b>Private Purpose Trust Funds</b>
<b>Additions</b>	
Local and intermediate sources	\$ 10,720
<b>Total additions</b>	<u>10,720</u>
<b>Deductions</b>	
Non-operating expenses	<u>14,000</u>
<b>Total deductions</b>	<u>14,000</u>
Change in net position	(3,280)
<b>Net position, beginning of year</b>	<u>145,037</u>
<b>Net position, end of year</b>	<u>\$ 141,757</u>

See Notes to the Financial Statements

**Note 1 - Summary of Significant Accounting Policies**

**Reporting Entity**

The Texas City Independent School District (District) is governed by a seven-member Board of Trustees (Board), which has governance responsibilities over all activities related to public elementary and secondary education within the District. Because members of the Board are elected by the public; have authority to make decisions; appoint management and significantly influence operations; and have primary accountability for fiscal matters; the District is not included in any other governmental reporting entity. There are no component units, entities for which the District is considered to be financially accountable, included within the reporting entity.

The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to students or users who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements while the agency funds have no measurement of focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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



**Note 1 - Summary of Significant Accounting Policies (continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)**

Grant revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental funds:

- The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *child nutrition fund* is used to account for the activity associated with the District's food service program.
- The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- The *capital projects fund* is used to account for proceeds from sales of bonds and other revenues to be used for authorized construction projects.

Additionally, the District reports the following fund types:

- The *internal service funds* accounts for worker's compensation self-insurance funding and a technology equipment replacement fund for non capitalizable equipment.
- The *private purpose trust fund* is used to account for donations for scholarships funds that are received by the District that are to be awarded to current and former students for post-secondary education purposes.
- The *agency fund* is used to account for assets held by the District as an agent for student organizations and the tax office. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to students or users for goods, services, or privileges provided and 2) operating grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and investment income.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's internal service fund are charges to the funds and/or employees for self-funded health services. Operating expenses for the internal service fund include the cost of services and administrative expenses. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Deposits and Investments**

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

Investments for the District are reported at fair value based on quoted market prices at August 31, 2014. The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

**Receivables and Payables**

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

Property tax receivables include unpaid property taxes at year-end and are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to an average of 47 percent of outstanding property taxes at August 31, 2014. Revenues from property taxes are recognized when levied to the extent they are available. The District considers property taxes as available when collected. However, not all outstanding property taxes are expected to be collected within one year of the date of the financial statements. Property values are determined by the Galveston County Appraisal District as of January 1 of each year. Prior to September 1 of each year, the District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy.

Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

**Inventories and Prepaid Items**

Inventories consisting of supplies and materials are valued at weighted average cost and they include maintenance, transportation, office and instructional supplies, and food service commodities. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Food service commodity inventory is recorded at fair market value on the date received. Commodities are recognized as revenues in the period received when all the eligibility requirements are met. Commodity inventory items are recorded as expenditures when distributed to user locations. A portion of fund balance is classified as non-spendable to reflect minimum inventory quantities considered necessary for the District's continuing operations.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. Prepaid items also include payroll amounts for contract amounts paid to employees prior to the expenditures being incurred.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Capital Assets**

Capital assets, which include land, construction in progress, buildings and improvements, and furniture and equipment, are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost that equals or exceeds \$5,000 and an estimated useful life in excess of one year. 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 and improvements, and 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	60
Building improvements	Remaining life of building or 30 years, whichever is less
Furniture and equipment	5
Information systems (computer equipment)	5
Automobiles and trucks	10
Buses and heavy equipment	15

**Compensated Absences**

Compensated absences are absences for which employees will be paid, such as sick leave. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place.

In the governmental funds, compensated absences that are expected to be liquidated with expendable available financial resources are reported as an expenditure and fund liability in the fund that will pay for them. The remainder of the compensated absences liability is reported in long-term liabilities on the statement of net position.

**Long-term Obligations**

The District's long-term obligations consist of bonded indebtedness and compensated absences. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities and proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year incurred.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Long-term Obligations (continued)**

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 issuances 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.

The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. The current requirements for compensated absences are accounted for in the general fund. The requirements for health insurance and workers' compensation are accounted for in the internal service fund.

**Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/ expenditure) until then. At August 31, 2014, the District did not have any items to report as deferred outflows of resources.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The amount of deferred inflows in the governmental funds related to unavailable revenue for property taxes at August 31, 2014 was \$1,653,541.

**Fund Equity**

The District reports fund balances in accordance with GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions". This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Non-spendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, the inventory and deferred expenditures have been properly classified in the Governmental Funds Balance Sheet (Exhibit C-1).
- Restricted fund balance – amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. The fund balances for the Child Nutrition Fund and other grant funds are classified as restricted.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Fund Equity (continued)**

- Committed fund balance – amounts constrained to specific purposes by the District itself, using its highest level of decision making authority (i.e. the Board of Trustees). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint. The fund balance of the campus activity fund is committed for use at the campuses per board policy.
- Assigned fund balance – amounts the District intends to use for a specific purpose. Intent can be expressed by the District or by an official or body to which the Board of Trustees delegates the authority. In the general fund the District has assigned fund balance of \$14,000,000 for school renovation, \$1,000,000 for special education, \$1,000,000 for property insurance premiums and \$5,154,873 for catastrophic events.
- Unassigned fund balance – amounts that are available for any purpose. At August 31, 2014, the District reports an unassigned fund balance of \$12,017,520.

The District establishes (and modifies or rescinds) fund balance commitments by passage of resolution. A fund balance commitment is further indicated in the budget document as a commitment. Per Policy CE local, assigned fund balance amounts are established by the Superintendent or his designee.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

**Data Control Codes**

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

**Use of Estimates**

The presentation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**Note 2 - Deposits and Investments**

**Cash Deposits**

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities are approved by the Texas Education Agency and shall be in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. At August 31, 2014, the amount of cash on hand in the District's bank account was \$1,102,648, with a carrying value of \$404,115, all of which was fully collateralized; therefore the District was in compliance with the Texas School Depository Act.

**Note 2 - Deposits and Investments (continued)**

**Investments**

The District’s investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. The District further limits its investments to obligations of the U.S. Treasury or the State of Texas, certain U.S. Agencies, certificates of deposit, collateralized mortgage obligations, no-load money market mutual funds, certain municipal securities, qualified commercial paper, repurchase agreements, or investment pools.

**Local Government Investment Pools**

For fiscal year 2014, the District invested in the State of Texas TexPool, and Investors Cash Trust (“ICT”) money market mutual fund. TexPool operates in a manner consistent with the SEC’s rule 2a-7 of the Investment Company Act of 1940. As such, TexPool uses amortized cost to report net position and share prices, since those approximate fair values. The State Street Bank is the custodial bank. The portfolio consists of U.S. T-Bills, T-Notes, collateralized repurchase and reverse repurchase agreements, and no-load money market mutual funds regulated by the Securities and Exchange Commission and rated AAA or equivalent by at least one nationally recognized rating service. The money market mutual fund listed on the following page consists of shares owned in Investors Cash Trust; an SEC registered money market fund with the stated objective of maintaining a stable net asset value of \$1.00.

At year-end, the District’s cash and investment balances and the weighted average maturity of these investments were as follows:

	<u>Fair Market Value</u>	<u>Weighted Average Maturity (Days)</u>
<b>Governmental Activities</b>		
Cash and deposits	<u>\$ 289,284</u>	
<b>Investments</b>		
Local Government Investment Pools:		
TexPool	<u>\$ 38,938,113</u>	48
	<u>38,938,113</u>	
Investment Securities:		
ICT Money Market Mutual Fund	<u>5,090,845</u>	42
	<u>5,090,845</u>	
<b>Total Investments</b>	<u>44,028,958</u>	47
<b>Total Governmental Activities</b>	<u>44,318,242</u>	
<b>Fiduciary Funds</b>		
Cash and Deposits	114,831	
TexPool	<u>198,765</u>	48
<b>Total Fiduciary Funds</b>	<u>313,596</u>	
<b>Total</b>	<u>\$ 44,631,838</u>	

**Note 2 - Deposits and Investments (continued)**

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio as a whole to no more than 360 days.

**Credit Risk**

State law and the District's investment policy limits investments in all categories to top ratings issued by nationally recognized statistical rating organizations. As of August 31, 2014, the District's investment in TexPool was rated AAAM by Standard and Poor's. The District's investment in the ICT money market mutual fund was rated AAAM by Standard and Poor's.

**Concentration of Credit Risk**

The District's investment policy, except for investments in local government investment pools, requires the investment portfolio to be diversified in terms of investment instruments, maturity scheduling, and financial institutions in order to reduce the risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer. The District's investment of \$39,136,878 in TexPool (a local government investment pool) represents 88% percent of the District's total investments.

The investments are reported by the District at fair value. There was no change in the fair value of the District's investments during the year ended August 31, 2014. Investment earnings totaled \$22,063 for the year.

**Note 3 - Receivables**

Receivables as of year-end for the District's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<b>General Fund</b>	<b>Child Nutrition Fund</b>	<b>Debt Service Fund</b>	<b>Other Governmental Funds</b>	<b>Total</b>
Property Taxes	\$ 2,753,218	\$	\$ 357,466	\$	\$ 3,110,684
Due from other governments	208,228	67,590		857,220	1,133,038
Other	425	18,253			18,678
Gross Receivables	2,961,871	85,843	357,466	857,220	4,262,400
Less allowance for doubtful accounts	(1,287,456)		(169,686)		(1,457,142)
<b>Net Total Receivables</b>	<b>\$ 1,674,415</b>	<b>\$ 85,843</b>	<b>\$ 187,780</b>	<b>\$ 857,220</b>	<b>\$ 2,805,258</b>

Governmental funds report unearned revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period or in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, District reported unearned revenues in the governmental funds in the amount of \$17,826 for grant funds received prior to meeting all eligibility requirements.

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*  
*(continued)*

**Note 4 - Capital Assets**

Capital asset activity for the year ended August 31, 2014, was as follows:

	<u>Balance</u> <u>August 31, 2013</u>	<u>Additions</u>	<u>(Retirements)</u> <u>and Transfers</u>	<u>Balance</u> <u>August 31, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 1,465,680	\$	\$	\$ 1,465,680
Construction in progress	15,036,767	16,054,909	(31,091,676)	
<b>Total Capital assets, not being depreciated</b>	<u>16,502,447</u>	<u>16,054,909</u>	<u>(31,091,676)</u>	<u>1,465,680</u>
Capital assets, being depreciated:				
Buildings and improvements	143,702,104	655,210	31,091,676	175,448,990
Furniture and equipment	13,837,010	318,775		14,155,785
<b>Total Capital assets, being depreciated</b>	<u>157,539,114</u>	<u>973,985</u>	<u>31,091,676</u>	<u>189,604,775</u>
Less accumulated depreciation for:				
Buildings and improvements	(30,699,616)	(2,441,694)		(33,141,310)
Furniture and Equipment	(7,893,481)	(1,115,421)		(9,008,902)
<b>Total Accumulated depreciation</b>	<u>(38,593,097)</u>	<u>(3,557,115)</u>		<u>(42,150,212)</u>
<b>Governmental Capital Assets</b>	<u>\$ 135,448,464</u>	<u>\$ 13,471,779</u>	<u>\$</u>	<u>\$ 148,920,243</u>

Depreciation expense was charged to functions/programs of the District as follows:

<u>Function</u>	<u>Depreciation</u> <u>Expense</u>
Instruction	\$ 2,343,815
Instructional resources and media services	109,368
Curriculum and staff development	21,392
Instructional leadership	13,139
School leadership	161,859
Guidance, counseling and evaluation services	39,949
Social work services	2,749
Health services	22,645
Student transportation	23,806
Food Services	235,849
Extracurricular activities	211,128
General administration	90,546
Facilities maintenance and operations	218,481
Security and monitoring services	14,091
Data processing services	37,500
Community services	10,798
	<u>\$ 3,557,115</u>

The District had no construction commitments as of August 31, 2014.



**Note 5 - Interfund Receivables, Payables, and Transfers**

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from payroll, warehouse ordering and other regularly occurring charges that are paid by the general fund and then charged back to the appropriate other fund. Additionally, some lending/borrowing may occur between two or more nonmajor governmental funds.

The composition of interfund balances as of August 31, 2014, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Net</u>
<b>Governmental Activities</b>			
General Fund	\$ 2,071,965	\$ 3,458	\$ 2,068,507
Child Nutrition Fund	4,031	83	3,948
Nonmajor Governmental Funds		742,655	(742,655)
Internal Service Funds		1,329,689	(1,329,689)
<b>Total Governmental Funds</b>	<u>2,075,996</u>	<u>2,075,885</u>	<u>111</u>
Fiduciary Funds		111	(111)
<b>Total</b>	<u><u>\$ 2,075,996</u></u>	<u><u>\$ 2,075,996</u></u>	<u><u>\$</u></u>

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” Interfund transfers for the year were made as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Technology Equipment Fund	\$ 500,000	Contribution to Technology Equipment Replacement Fund
Workers Compensation Fund	General Fund	1,329,689	Reimbursement of prior year expenditures from Workers Compensation Fund
		<u>\$ 1,829,689</u>	

**Note 6 - Compensated Absences and Other Retirement/Sick Leave Benefits**

Upon retirement or death of certain employees, the District pays any accrued sick and vacation leave in a lump sum cash payment to such employee or the employee’s estate. Individuals employed after October 1, 1985 are not eligible to receive the lump sum payments.

The following summarizes the District’s liability and the changes for the year:

	<u>Balance September 1, 2013</u>	<u>Additions</u>	<u>Deductions - Payments to Participants</u>	<u>Balance August 31, 2014</u>
Compensated absences payable	<u>\$ 333,448</u>	<u>\$ 65,654</u>	<u>\$ (65,381)</u>	<u>\$ 333,721</u>

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*  
*(continued)*

**Note 7 - Long-term Liabilities**

The District has entered into a continuing disclosure undertaking to provide annual reports and material event notices to the State Information Depository of Texas through the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of Texas City Independent School District.

The District is subject to a legal debt margin in which the net indebtedness shall not exceed 10 percent of all assessed real and personal property in the District. At August 31, 2014, the legal debt margin was \$262,031,820.

**Changes in Long-term Liabilities**

Long-term liability activity for the year ended August 31, 2014, was as follows:

	<b>Balance September 1, 2013</b>	<b>Additions</b>	<b>Retirements</b>	<b>Balance August 31, 2014</b>	<b>Due Within One Year</b>
General Obligation Bonds	\$ 114,560,000	\$	\$ (4,785,000)	\$ 109,775,000	\$ 4,975,000
Issuance Premiums/Discounts	4,821,716		(416,512)	4,405,204	
<b>Total Bonds and Notes Payable</b>	<b>119,381,716</b>		<b>(5,201,512)</b>	<b>114,180,204</b>	<b>4,975,000</b>
Other Liabilities					
Compensated absences payable	333,448	65,654	(65,381)	333,721	83,430
<b>Total Other Liabilities</b>	<b>333,448</b>	<b>65,654</b>	<b>(65,381)</b>	<b>333,721</b>	<b>83,430</b>
	<b>\$ 119,715,164</b>	<b>\$ 65,654</b>	<b>\$ (5,266,893)</b>	<b>\$ 114,513,925</b>	<b>\$ 5,058,430</b>

**General Obligation Bonds**

General obligation bonds are direct obligations and pledge the full faith and credit of the District. These are issued as current interest bonds and term bonds with various amounts of principal maturing each year.

General obligation bonds currently outstanding are as follows:

<b>Issue</b>	<b>Original issuance amount</b>	<b>Interest Rate (%)</b>	<b>Maturity Date</b>	<b>Debt Outstanding</b>
Unlimited Tax School Building Bonds, Series 2008	\$ 54,565,000	3.5% to 5.0%	2030	\$ 52,070,000
Unlimited Tax School Building Bonds, Series 2009	28,910,000	3.5% to 5.0%	2030	26,985,000
Unlimited Tax School Building Bonds, Series 2010A	25,810,000	2.0-5.0%	2030	23,230,000
Unlimited Tax School Building Bonds, Series 2011	8,845,000	2.0-4.0%	2030	7,490,000
				<b>\$ 109,775,000</b>

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**

*Exhibit F-1*  
*(continued)*

**Note 7 - Long-term Liabilities (continued)**

Debt service requirements to maturity are as follows:

<b>Year Ending August 31,</b>	<b>Principal</b>	<b>Interest</b>	<b>Totals</b>
2015	\$ 4,975,000	\$ 4,773,652	\$ 9,748,652
2016	5,155,000	4,591,852	9,746,852
2017	5,345,000	4,401,027	9,746,027
2018	5,570,000	4,180,052	9,750,052
2019	5,785,000	3,965,202	9,750,202
2020	6,025,000	3,725,652	9,750,652
2021	6,255,000	3,494,872	9,749,872
2022	6,510,000	3,239,958	9,749,958
2023	6,800,000	2,949,808	9,749,808
2024	7,135,000	2,614,458	9,749,458
2025	7,470,000	2,280,358	9,750,358
2026	7,820,000	1,930,408	9,750,408
2027	8,165,000	1,583,258	9,748,258
2028	8,530,000	1,217,546	9,747,546
2029	8,915,000	831,550	9,746,550
2030	9,320,000	426,426	9,746,426
	<u>\$ 109,775,000</u>	<u>\$ 46,206,079</u>	<u>\$ 155,981,079</u>

**Prior Years' Refunding of Long-Term Debt**

In prior years, the District defeased certain general obligation debt by placing the proceeds of the new bonds in an irrevocable trust to provide for all future debt service payments on the refunded debt. Accordingly, the trust account assets and the liability for the defeased debt are not included in the District's financial statements. At August 31, 2014, \$3,385,000 of previously refunded debt outstanding was considered defeased.

**Note 8 - Revenues from Local, Intermediate, and Out-of-State Sources**

During the current year, revenues from local and intermediate sources consisted of the following:

	<b>General Fund</b>	<b>Child Nutrition Fund</b>	<b>Debt Service Fund</b>	<b>Capital Projects</b>	<b>Other Governmental Funds</b>	<b>Total</b>
Property Taxes	\$ 38,871,952		\$ 9,371,876			\$ 48,243,828
Penalties, interest and other tax related revenue	162,852		34,506			197,358
Investment Income	14,659	171	2,114	4,030	263	21,237
Co-curricular student activities	5,013,464				718,813	5,732,277
Tuition and fees	29,116					29,116
Food Sales		961,970				961,970
Other	33,201	47,688				80,889
	<u>\$ 44,125,244</u>	<u>\$ 1,009,829</u>	<u>\$ 9,408,496</u>	<u>\$ 4,030</u>	<u>\$ 719,076</u>	<u>\$ 55,266,675</u>

**Note 9 - General Fund Federal Source Revenues**

<u>Program or Source</u>	<u>CFDA #</u>	<u>Amount</u>
School Health and Related Service (SHARS)	N/A	<u>\$ 345,616</u>

**Note 10 - Operating Leases**

Commitments under operating lease (non-capitalized) agreements for facilities and equipment are subject to fiscal funding clauses. As such, the agreements are cancelable and the District is therefore not obligated for minimum future rental payments as of August 31, 2014. The imputed interest on the leases is not readily determinable.

Rental expenditures for the year ended August 31, 2014, amounted to \$192,361.

**Note 11 - Pension Information**

**Plan Description:** The 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 the 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 transfer 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](http://www.trs.state.tx.us), under the TRS Publications heading.

**Funding Policy:** Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (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% of the aggregate annual compensation of all members of the system; (2) a state statute prohibits benefit improvements or contribution reductions if, as a result of the particular action(s), the time required to amortize TRS's unfunded actuarial liabilities would be increased to a period that exceeds 31 years; or, (3) 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 2014, 2013, and 2012. The State contributed at a rate of 6.8% for fiscal year 2014 of all employees' eligible gross earnings, except for those staff members subject to statutory minimum requirements and those staff members being paid from and participating in federally funded programs. State statutes establish these rates. The statutory minimum requirements are based on the State of Texas teacher schedules adjusted based on local tax rates. For staff members funded by federal programs, the federal programs are required to contribute 6.8% for fiscal year 2014, 6.4% for fiscal year 2013, and 6.0% for fiscal year 2012.

**Note 11 - Pension Information (continued)**

Contributions made by the State, District, and staff members for the years ended August 31, 2014, 2013, and 2012 are as follows:

<b>For the Year Ended August 31</b>	<b>State TRS Contributions Made on Behalf of the District</b>	<b>District Required Contributions to TRS</b>	<b>Staff Members' Contributions to TRS</b>	<b>Total Covered Payroll</b>
2014	\$ 1,830,750	\$ 708,825	\$ 2,390,187	\$ 37,346,693
2013	1,615,508	629,983	2,145,485	35,085,789
2012	1,540,096	522,545	2,100,149	34,377,357

For the current fiscal year and each of the past two years, the District's contributions were equal to 100% of the required contributions. The contributions made by the State on behalf of the District have been recorded in the governmental funds financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the state.

**Note 12 - Retiree Health Plan**

**Plan Description:** The Texas City 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). TRS-Care Retired Plan provides health care coverage for certain persons (and their dependents) who retired under TRS. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, or 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](http://www.trs.state.tx.us), under the TRS Publications heading. The Texas Legislature determines the funding of benefits and has no continuing obligation to provide benefits beyond each fiscal year. Currently, the benefits of TRS-Care are financed through a combination of retiree premiums and percentage of payroll contributions from active employees, school districts, and the State of Texas.

**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% and .65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2014, 2013, and 2012. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than .25% or greater than .75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 1%.

**Note 12 - Retiree Health Plan (continued)**

Contributions made by the State, District, and staff members for the years ended August 31, 2014, 2013, and 2012 are as follows:

<b>For the Year Ended August 31</b>	<b>State TRS Care Contributions Made on Behalf of the District</b>	<b>District Required Contributions to TRS Care</b>	<b>Staff Members' Contributions to TRS Care</b>	<b>Total Covered Payroll</b>
2014	\$ 345,382	\$ 233,490	\$ 242,757	\$ 37,346,693
2013	159,533	208,873	228,060	35,085,789
2012	256,457	276,400	223,453	34,377,357

For the current fiscal year and each of the past two years, the District's contributions were equal to 100% of the required contributions. The contributions made by the State on behalf of the District have been recorded in the governmental funds financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the state.

The Medicare Prescription Drug Improvement and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2014, 2013, and 2012, the subsidy payments received by the TRS-Care on-behalf of the district were \$92,706, \$86,443, and \$79,683 respectively. The payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

**Note 13 - Risk Management**

**Property/Liability**

The District is exposed to various risks of loss related to property/liability losses for which the District carries commercial insurance.

**Health Insurance**

The Board of Trustees approved the district's participation in the TRS (Texas Retirement System) Active Care Health Insurance Program as sponsored by the Teacher Retirement System of Texas and administered by Blue Cross Blue Shield of Texas and Medco Health (pharmacy) effective September 1, 2007. This is a premium-based plan; payments are made on a monthly basis for all covered employees.

**Workers' Compensation**

During the year ended August 31, 2014, employees of the Texas City Independent School District were provided workers' compensation benefits which were self-funded from accumulated assets provided directly by the District, the plan sponsor. The District is solely responsible for the cost of all claims, both reported and unreported. All claims were submitted, processed, and approved by a third party administrator acting as an agent for the District. The plan was documented by contractual agreement. The District was protected against unanticipated, catastrophic individual or aggregate loss by stop-loss coverage carried through Safety National Casualty Corp. which limited annual claims paid from the Plan for the year ended August 31, 2014 to \$250,000 per occurrence with a maximum level of indemnity of \$3,000,000 and aggregate losses exceeding \$1,250,000 over a two year period.

**Note 13 - Risk Management (continued)**

**Workers' Compensation (continued)**

Premiums are paid into the internal service fund by all other funds and are available to pay claims, claim reserves, and administrative costs of the program. These interfund premiums are reported as revenues in the internal service fund.

Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities also include an estimated amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from stop-loss or subrogation, are another component of the claims liability estimate. An excess coverage insurance policy covers individual claims in excess of \$300,000 up to the statutory limits for any given claim. There were no significant reductions in insurance coverage from the prior year. Settlements have not exceeded coverage for each of the past three fiscal years. Changes in the balances of claims liabilities during the past three years are as follows:

<b>Fiscal Year</b>	<b>Beginning of Year Accrual</b>	<b>Current Year Estimates</b>	<b>Claims Payments</b>	<b>End of Year Accrual</b>
2012	\$ 133,713	\$ 113,902	\$ (207,940)	\$ 39,675
2013	39,675	279,364	(240,778)	78,261
2014	78,261	71,313	(108,341)	41,233

**Note 14 - Shared Service Arrangements / Joint Ventures**

The District participates in a shared services arrangement for Juvenile Justice Alternative Education Program with five other school districts. Although 24.1% of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Dickinson ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Texas City Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

**Note 14 - Shared Service Arrangements / Joint Ventures (continued)**

Presented below are the revenues and expenditures attributable to the District's participation:

Revenues	
5700 Local revenue from member districts	\$ 38,748
	<u>\$ 38,748</u>
Expenditures	
6100 Payroll costs	\$ 36,198
6200 Contracted services	1,918
6300 Supplies and materials	624
6400 Miscellaneous operating costs	8
	<u>\$ 38,748</u>

The District participates in a shared services arrangement for the Galveston County Transforming Lives Cooperative program with five other school districts. Although 39.3% of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Dickinson ISD, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Texas City Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Revenues attributable to the District's participation totaled \$22,959. Expenditures in the same amount were attributable to the District's participation, all of which were used for payroll costs.

The District participates in a shared services arrangement for the Galveston - Brazoria Co-op for Hearing with one other school district. Although 5.3% of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Clear Creek Independent School District, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Texas City Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

Presented below are the revenues and expenditures attributable to the District's participation.

Revenues	
5700 Local revenue from member districts	\$ 77,847
	<u>\$ 77,847</u>
Expenditures	
6100 Payroll costs	\$ 65,142
6200 Contracted services	3,106
6300 Supplies and materials	7,909
6400 Miscellaneous operating costs	1,689
	<u>\$ 77,847</u>



**Note 14 - Shared Service Arrangements / Joint Ventures (continued)**

The District participates in a shared services arrangement for services for visually impaired students with one other school district. Although only a portion of the overall activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Galveston Independent School District, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Texas City Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Revenues attributable to the District's participation totaled \$8,623. Expenditures in the same amount were attributable to the District's participation, all of which were used for payroll costs.

**Note 15 - Contingent Liabilities**

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

The District is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of management and the District's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

**Note 16 - Contracted Instructional Services between Schools**

During the year ended August 31, 2014, the District was required to pay to purchase attendance credits to equalize its wealth per weighted average daily attendance ("WADA"). The purchase of WADA was made from the State of Texas. The final amount payable will be determined by the Texas Education Agency.

**Note 17 - Other Postemployment Benefits**

The District does not provide postemployment healthcare benefits except those mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under the Act, and no direct costs are incurred by the district.

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**REQUIRED SUPPLEMENTARY INFORMATION**

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
For the Year Ended August 31, 2014

Exhibit G-1

Data Control Codes	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)	
	Original	Final			
<b>Revenues</b>					
5700	Local revenues	\$ 41,193,029	\$ 44,162,971	\$ 44,125,244	\$ (37,727)
5800	State program revenues	11,021,930	11,092,974	10,451,484	(641,490)
5900	Federal program revenues	300,000	345,562	345,616	54
<b>5020</b>	<b>Total revenues</b>	<u>52,514,959</u>	<u>55,601,507</u>	<u>54,922,344</u>	<u>(679,163)</u>
<b>Expenditures</b>					
<b>Current:</b>					
0011	Instruction	25,891,143	27,153,908	27,103,344	50,564
0012	Instructional resources and media services	647,073	688,277	671,449	16,828
0013	Curriculum and staff development	466,415	519,038	497,881	21,157
0021	Instructional leadership	435,219	413,682	404,039	9,643
0023	School leadership	2,719,338	2,932,246	2,904,635	27,611
0031	Guidance, counseling and evaluation services	1,510,023	1,540,987	1,540,576	411
0032	Social work services	63,266	89,470	64,699	24,771
0033	Health services	469,854	459,417	451,815	7,602
0034	Student transportation	1,425,913	1,445,558	1,103,514	342,044
0036	Extracurricular activities	1,412,168	1,803,911	1,797,688	6,223
0041	General administration	2,337,169	2,353,710	2,298,060	55,650
0051	Facilities maintenance and operations	8,966,734	9,401,384	8,554,695	846,689
0052	Security and monitoring services	692,239	696,449	694,109	2,340
0053	Data processing services	1,276,871	1,209,094	1,197,310	11,784
0061	Community services	30,490	37,032	33,528	3,504
<b>Debt Service:</b>					
0071	Principal on long-term debt	500,000			
<b>Capital Outlay:</b>					
0081	Facilities acquisition and construction	97,639	104,621	100,914	3,707
<b>Intergovernmental:</b>					
0091	Contracted instructional services	4,473,217	4,619,275	4,193,179	426,096
0093	Payments related to shared services arrangements	166,617	166,617	125,218	41,399
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	25,000	98,210	22,959	75,251
0099	Payments to other governments	372,311	431,100	427,376	3,724
<b>6030</b>	<b>Total Expenditures</b>	<u>53,978,699</u>	<u>56,163,986</u>	<u>54,186,988</u>	<u>1,976,998</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(1,463,740)</u>	<u>(562,479)</u>	<u>735,356</u>	<u>1,297,835</u>
<b>Other Financing Sources (Uses)</b>					
7915	Operating transfers in	2,076,222	5,716,812	1,329,689	(4,387,123)
8911	Operating transfers out	(746,533)	(4,887,123)	(500,000)	4,387,123
<b>7080</b>	<b>Total other financing sources and uses</b>	<u>1,329,689</u>	<u>829,689</u>	<u>829,689</u>	
1200	Net change in fund balances	(134,051)	267,210	1,565,045	1,297,835
<b>0100</b>	<b>Fund balances - beginning</b>	<u>33,380,769</u>	<u>33,380,769</u>	<u>33,380,769</u>	
<b>3000</b>	<b>Fund balances - ending</b>	<u>\$ 33,246,718</u>	<u>\$ 33,647,979</u>	<u>\$ 34,945,814</u>	<u>\$ 1,297,835</u>

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**

*Exhibit G-2*

**BUDGETARY COMPARISON SCHEDULE**

**CHILD NUTRITION FUND**

*For the Year Ended August 31, 2014*

		<b>Child Nutrition Fund</b>			
		<b>Budgeted Amounts</b>			
<b>Data Control Codes</b>		<b>Original</b>	<b>Final</b>	<b>Actual Amounts, Budgetary Basis</b>	<b>Variance with Final Budget - Positive (Negative)</b>
<b>Revenues</b>					
5700	Local revenues	\$ 1,042,966	\$ 1,042,966	\$ 1,009,829	\$ (33,137)
5800	State program revenues	18,500	98,918	18,918	(80,000)
5900	Federal program revenues	2,623,727	3,043,449	3,053,008	9,559
<b>5020</b>	<b>Total revenues</b>	<u>3,685,193</u>	<u>4,185,333</u>	<u>4,081,755</u>	<u>(103,578)</u>
<b>Expenditures</b>					
<b>Current:</b>					
0035	Food services	3,669,709	6,126,271	5,131,737	994,534
<b>6030</b>	<b>Total Expenditures</b>	<u>3,669,709</u>	<u>6,126,271</u>	<u>5,131,737</u>	<u>994,534</u>
1200	Net change in fund balances	15,484	(1,940,938)	(1,049,982)	890,956
<b>0100</b>	<b>Fund balances - beginning</b>	<u>1,634,504</u>	<u>1,634,504</u>	<u>1,634,504</u>	
<b>3000</b>	<b>Fund balances - ending</b>	<u>\$ 1,649,988</u>	<u>\$ (306,434)</u>	<u>\$ 584,522</u>	<u>\$ 890,956</u>

The District adopts annual appropriations type budgets for the General Fund, Child Nutrition Special Revenue Fund, and the Debt Service Fund using the same method of accounting as for financial reporting, as required by law. The remaining special revenue funds (primarily federal grant programs) utilize a managerial type budget approved at the fund level by the Board of Trustees upon acceptance of the grants. These grants are subject to federal, state, and locally imposed project length budgets and monitoring through submission of reimbursement reports.

Expenditures may not legally exceed budgeted appropriations at the function or activity level. Expenditure requests which would require an increase in total budgeted appropriations must be approved by the Trustees through formal budget amendment. State law prohibits trustees from making budget appropriations in excess of funds available and estimated revenues. State law also prohibits amendment of the budget after fiscal year end. Supplemental appropriations were made during the fiscal year ended August 31, 2014. During the year ended August 31, 2014, the Board of Trustees approved budget amendments increasing expenditures as follows:

	<u>General Fund</u>	<u>Child Nutrition Fund</u>
Amendments Approved	\$ 2,185,287	\$ 2,456,562

The administrative level at which responsibility for control of budgeted appropriations begins is at the organizational level within each function of operations. The finance department reviews the expenditure requests submitted by the various organizational heads (principal and department heads) throughout the year to ensure proper spending compliance. No public funds of the District shall be expended in any manner other than as provided for in the budget adopted by the Board of Trustees.

The official school budget was prepared for adoption for budgeted governmental fund types by August 31, 2013. The budget was formally adopted by the Board of Trustees at a duly advertised public meeting prior to the expenditure of funds. The final amended budget is filed with the Texas Education Agency (TEA) through inclusion in the annual financial and compliance report.

**OTHER SUPPLEMENTARY INFORMATION**

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**

*COMBINING BALANCE SHEET*

*ALL NONMAJOR GOVERNMENTAL FUNDS*

*August 31, 2014*

<b>Data Control Codes</b>	<b>205</b>	<b>211</b>	<b>224</b>
	<b>Head Start</b>	<b>ESEA Title I, A - Improving Basic Program</b>	<b>IDEA B - Formula</b>
<b>Assets</b>			
1110	\$	\$	\$
1240	257,499	264,151	89,836
<b>1000</b>	<b>\$ 257,499</b>	<b>\$ 264,151</b>	<b>\$ 89,836</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
<b>Current Liabilities:</b>			
2110	\$ 2,373	\$ 67,232	\$ 6,850
2160		7,027	2,608
2170	255,126	189,892	80,378
2300			
<b>2000</b>	<b>257,499</b>	<b>264,151</b>	<b>89,836</b>
<b>Fund Balances:</b>			
<b>Restricted:</b>			
3450			
<b>Committed:</b>			
3545			
<b>3000</b>			
<b>4000</b>	<b>\$ 257,499</b>	<b>\$ 264,151</b>	<b>\$ 89,836</b>



225	244	255	263	277
<b>IDEA B - Preschool</b>	<b>Vocational Ed. - Basic</b>	<b>ESEA Title II, A - Training and Recruiting</b>	<b>ESEA Title III, A - English Lang. Acquisition</b>	<b>Homelessness Prevention Program</b>
\$ 1,931	\$ 12,810	\$ 75,154	\$ 1,729 3,044	\$ 152,795
<u>\$ 1,931</u>	<u>\$ 12,810</u>	<u>\$ 75,154</u>	<u>\$ 4,773</u>	<u>\$ 152,795</u>
\$ 392 1,539	\$ 3,080 9,730	\$ 22,476 1,793 50,885	\$ 757 2,181 1,835	\$ 152,795
<u>1,931</u>	<u>12,810</u>	<u>75,154</u>	<u>4,773</u>	<u>152,795</u>
<u>\$ 1,931</u>	<u>\$ 12,810</u>	<u>\$ 75,154</u>	<u>\$ 4,773</u>	<u>\$ 152,795</u>

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**

**COMBINING BALANCE SHEET**

**ALL NONMAJOR GOVERNMENTAL FUNDS**

August 31, 2014

<b>Data Control Codes</b>	<b>289</b>	<b>393</b>	<b>397</b>	
	<b>Locally Defined Special Revenue Fund</b>	<b>Texas Successful Schools Program</b>	<b>Advanced Placement Incentive</b>	
<b>Assets</b>				
1110	Cash and temporary investments	\$ 6,685	\$ 9,993	\$ 1,307
1240	Receivables from other governments			
<b>1000</b>	<b>Total Assets</b>	<u>\$ 6,685</u>	<u>\$ 9,993</u>	<u>\$ 1,307</u>
<b>Liabilities and Fund Balance</b>				
<b>Liabilities:</b>				
<b>Current Liabilities:</b>				
2110	Accounts payable	\$	\$	\$
2160	Accrued wages payable			
2170	Due to other funds			
2300	Unearned revenues		9,993	1,307
<b>2000</b>	<b>Total Liabilities</b>		<u>9,993</u>	<u>1,307</u>
<b>Fund Balances:</b>				
<b>Restricted:</b>				
3450	Federal/State grant restrictions	6,685		
<b>Committed:</b>				
3545	Other purposes			
<b>3000</b>	<b>Total fund balances</b>	<u>6,685</u>		
<b>4000</b>	<b>Total Liabilities and Fund Balances</b>	<u>\$ 6,685</u>	<u>\$ 9,993</u>	<u>\$ 1,307</u>

*Exhibit H-1*  
*Page 2 of 2*

<b>410</b>	<b>461</b>	
<b>Instructional Materials Allotment</b>	<b>Campus Activity Fund</b>	<b>Total Nonmajor Governmental Funds</b>
\$ 22,836	\$ 399,320	\$ 441,870
		857,220
<u>\$ 22,836</u>	<u>\$ 399,320</u>	<u>\$ 1,299,090</u>
\$ 13,967	\$ 14,607	\$ 131,342
		14,001
	475	742,655
6,526		17,826
<u>20,493</u>	<u>15,082</u>	<u>905,824</u>
2,343		9,028
	384,238	384,238
<u>2,343</u>	<u>384,238</u>	<u>393,266</u>
<u>\$ 22,836</u>	<u>\$ 399,320</u>	<u>\$ 1,299,090</u>

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - ALL NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended August 31, 2014**

<b>Data Control Codes</b>	<b>205</b>	<b>211</b>	<b>224</b>
<b>Head Start</b>	<b>ESEA Title I, A - Improving Basic Program</b>	<b>IDEA B - Formula</b>	
<b>Revenues</b>			
5700 Local, intermediate, and out-of-state	\$	\$	\$
5800 State program revenues			
5900 Federal program revenues	1,117,557	1,011,706	1,127,243
5020 <b>Total revenues</b>	<u>1,117,557</u>	<u>1,011,706</u>	<u>1,127,243</u>
<b>Expenditures</b>			
<b>Current:</b>			
0011 Instruction	805,807	929,576	879,903
0012 Instruction resources and media services			
0013 Curriculum and instructional staff development	28,265	830	45,042
0023 School leadership	95,141		
0031 Guidance, counseling and evaluation services			159,580
0032 Social work services		65,492	
0033 Health services	24,226		
0034 Student transportation	44,239		42,718
0036 Extracurricular activities			
0041 General administration			
0051 Plant maintenance and operations			
0061 Community services	119,879	15,808	
6030 <b>Total Expenditures</b>	<u>1,117,557</u>	<u>1,011,706</u>	<u>1,127,243</u>
1200 Net change in fund balances			
0100 <b>Fund balance - beginning</b>	<u>                    </u>	<u>                    </u>	<u>                    </u>
3000 <b>Fund balance - ending</b>	<u>\$                    </u>	<u>\$                    </u>	<u>\$                    </u>

225	244	255	263	277
<u>IDEA B - Preschool</u>	<u>Vocational Ed. - Basic</u>	<u>ESEA Title II, A - Training and Recruiting</u>	<u>ESEA Title III, A - English Lang. Acquisition</u>	<u>Homelessness Prevention Program</u>
\$	\$	\$	\$	\$
<u>31,076</u>	<u>70,942</u>	<u>267,897</u>	<u>45,704</u>	
<u>31,076</u>	<u>70,942</u>	<u>267,897</u>	<u>45,704</u>	
31,076	26,823	236,543	45,704	
	7,444	31,354		
	26,652			
	<u>10,023</u>			
<u>31,076</u>	<u>70,942</u>	<u>267,897</u>	<u>45,704</u>	
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - ALL NONMAJOR GOVERNMENTAL FUNDS**  
**For the Year Ended August 31, 2014**

<b>Data Control Codes</b>		<b>289</b>	<b>393</b>	<b>397</b>
		<b>Locally Defined Special Revenue Fund</b>	<b>Texas Successful Schools Program</b>	<b>Advanced Placement Incentive</b>
	<b>Revenues</b>			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues			
5900	Federal program revenues	3,339		
<b>5020</b>	<b>Total revenues</b>	<u>3,339</u>		
	<b>Expenditures</b>			
	<b>Current:</b>			
0011	Instruction			
0012	Instruction resources and media services			
0013	Curriculum and instructional staff development			
0023	School leadership			
0031	Guidance, counseling and evaluation services			
0032	Social work services			
0033	Health services			
0034	Student transportation			
0036	Extracurricular activities			
0041	General administration			
0051	Plant maintenance and operations			
0061	Community services			
<b>6030</b>	<b>Total Expenditures</b>			
1200	Net change in fund balances	3,339		
<b>0100</b>	<b>Fund balance - beginning</b>	<u>3,346</u>		
<b>3000</b>	<b>Fund balance - ending</b>	<u>\$ 6,685</u>	<u>\$</u>	<u>\$</u>

410

461

<b>Instructional Materials Allotment</b>	<b>Campus Activity Fund</b>	<b>Total-Other Governmental Funds</b>
\$	\$ 719,076	\$ 719,076
104,261		104,261
		3,675,464
<u>104,261</u>	<u>719,076</u>	<u>4,498,801</u>
95,522	433,608	3,484,562
	48,484	48,484
	74,062	186,997
	31,152	126,293
		186,232
		65,492
		24,226
		86,957
	72,478	72,478
	27,249	27,249
	13,808	13,808
		145,710
<u>95,522</u>	<u>700,841</u>	<u>4,468,488</u>
8,739	18,235	30,313
<u>(6,396)</u>	<u>366,003</u>	<u>362,953</u>
<u>\$ 2,343</u>	<u>\$ 384,238</u>	<u>\$ 393,266</u>

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**

*Exhibit H-3*

*COMBINING STATEMENT OF NET POSITION*

*INTERNAL SERVICE FUNDS*

*For the Year Ended August 31, 2014*

<u>Data Control Codes</u>	<b>773</b>	<b>797</b>	<b>Total</b>
	<u>Worker's Compensation</u>	<u>Technology Equipment</u>	
<b>Assets</b>			
<b>Current assets:</b>			
1110 Cash and cash equivalents	\$ 3,690,409	\$ 1,574,445	\$ 5,264,854
<b>1000 Total Assets</b>	<u>3,690,409</u>	<u>1,574,445</u>	<u>5,264,854</u>
<b>Liabilities</b>			
<b>Current Liabilities:</b>			
2110 Accounts payable	\$ 2,618	\$ 12,635	\$ 15,253
2170 Due to other funds	1,329,689		1,329,689
2200 Accrued expenses	41,233		41,233
<b>2000 Total Liabilities</b>	<u>1,373,540</u>	<u>12,635</u>	<u>1,386,175</u>
<b>Net Position</b>			
3900 Unrestricted net position	2,316,869	1,561,810	3,878,679
<b>3000 Total Net Position</b>	<u>\$ 2,316,869</u>	<u>\$ 1,561,810</u>	<u>\$ 3,878,679</u>



**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN NET POSITION**  
**INTERNAL SERVICE FUNDS**  
**For the Year Ended August 31, 2014**

*Exhibit H-4*

<b>Data Control Codes</b>		<b>773</b>	<b>797</b>	<b>Total</b>
		<b>Worker's Compensation</b>	<b>Technology Equipment</b>	
<b>Operating Revenues</b>				
5700	Charges for Services	\$ 479,476	\$	\$ 479,476
<b>5020</b>	<b>Total operating revenues</b>	<u>479,476</u>		<u>479,476</u>
<b>Operating Expenses</b>				
6100	Payroll costs	56,729		56,729
6200	Purchased and contracted services	65,128		65,128
6300	Supplies and materials	4,321	72,241	76,562
6400	Claims expense and other operating expenses	71,313		71,313
<b>6030</b>	<b>Total Operating Expenses</b>	<u>197,491</u>	<u>72,241</u>	<u>269,732</u>
1200	Operating Income (Loss)	<u>281,985</u>	<u>(72,241)</u>	<u>209,744</u>
<b>Non-Operating Revenues (Expenses)</b>				
7020	Earnings - temporary deposits and investments	826		826
	<b>Total Nonoperating Revenues</b>	<u>826</u>		<u>826</u>
	Income (Loss) before Transfers	282,811	(72,241)	210,570
<b>Transfers</b>				
7915	Transfers in		500,000	500,000
8911	Transfers out	<u>(1,329,689)</u>		<u>(1,329,689)</u>
1200	Change in Net Position	(1,046,878)	427,759	(619,119)
<b>Net Position</b>				
<b>0100</b>	<b>Net Position - beginning</b>	<u>3,363,747</u>	<u>1,134,051</u>	<u>4,497,798</u>
<b>3300</b>	<b>Net Position - ending</b>	<u>\$ 2,316,869</u>	<u>\$ 1,561,810</u>	<u>\$ 3,878,679</u>

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF CASH FLOWS**  
**INTERNAL SERVICE FUNDS**  
Year Ended August 31, 2014

*Exhibit H-5*

	773	797	
	<u>Worker's Compensation</u>	<u>Technology Equipment</u>	<u>Total</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>			
<b>Cash Flows from Operating Activities:</b>			
Cash received from user charges	\$ 479,476	\$	\$ 479,476
Cash payments for insurance claims	1,221,348		1,221,348
Cash payments to suppliers for goods and services	(67,432)	(59,606)	(127,038)
Cash payments to employees	(57,158)		(57,158)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>1,576,234</u>	<u>(59,606)</u>	<u>1,516,628</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>			
Transfers to other funds	(1,329,689)		(1,329,689)
Transfers from other funds		500,000	500,000
<b>Net Cash Provided by (Used for) Non-Capital Financing Activities</b>	<u>(1,329,689)</u>	<u>500,000</u>	<u>(829,689)</u>
<b>Cash Flows from Investing Activities:</b>			
Interest on investments	826		826
<b>Net Cash Provided by Investing Activities</b>	<u>826</u>		<u>826</u>
Net Increase in Cash and Cash Equivalents	247,371	440,394	687,765
Cash and Cash Equivalents at Beginning of Year	3,443,038	1,134,051	4,577,089
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 3,690,409</u>	<u>\$ 1,574,445</u>	<u>\$ 5,264,854</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>			
Operating Income (Loss)	\$ 281,985	\$ (72,241)	\$ 209,744
Adjustments to Reconcile Operating Income to Net Cash:			
Increase (decrease) in Accounts Payable	2,017	12,635	14,652
Increase (decrease) in Due to Other Funds	1,329,689		1,329,689
Increase (decrease) in Accrued Wages Payable	(429)		(429)
Increase (decrease) in Accrued Expenses	(37,028)		(37,028)
<b>Net Cash Provided by (Used for) Operating Activities</b>	<u>\$ 1,576,234</u>	<u>\$ (59,606)</u>	<u>\$ 1,516,628</u>

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF NET POSITION - PRIVATE PURPOSE TRUST FUNDS**  
 August 31, 2014

Exhibit H-6

Data Control Codes		828	848	849	Total Private Purpose Trust Funds	Agency Funds
		Project Garden Grant	Employee Scholarship Fund	Heatherington Scholarship		
<b>Assets</b>						
1110	Cash and cash equivalents	\$ 3,201	\$ 99,013	\$ 39,543	\$ 141,757	\$ 171,839
<b>1000</b>	<b>Total Assets</b>	<u>\$ 3,201</u>	<u>\$ 99,013</u>	<u>\$ 39,543</u>	<u>\$ 141,757</u>	<u>\$ 171,839</u>
<b>Liabilities</b>						
2110	Accounts payable	\$	\$	\$	\$	\$ 5,378
2170	Due to primary government					111
2190	Due to others					166,350
<b>2000</b>	<b>Total Liabilities</b>					<u>\$ 171,839</u>
<b>Net Position</b>						
3800	Restricted	<u>\$ 3,201</u>	<u>\$ 99,013</u>	<u>\$ 39,543</u>	<u>\$ 141,757</u>	

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN NET POSITION - PRIVATE PURPOSE TRUST FUNDS**  
**For the Year Ended August 31, 2014**

*Exhibit H-7*

	<b>828</b>	<b>848</b>	<b>849</b>	
	<b>Project Garden Grant</b>	<b>Employee Scholarship Fund</b>	<b>Heatherington Scholarship</b>	<b>Total</b>
<b>Additions</b>				
Local and Intermediate Sources	\$	\$ 10,686	\$ 34	\$ 10,720
<b>Total additions</b>		<u>10,686</u>	<u>34</u>	<u>10,720</u>
<b>Deductions</b>				
Other operating expenses		14,000		14,000
<b>Total deductions</b>		<u>14,000</u>		<u>14,000</u>
Change in net position		(3,314)	34	(3,280)
<b>Net position, beginning of year</b>	<u>3,201</u>	<u>102,327</u>	<u>39,509</u>	<u>145,037</u>
<b>Net position, end of year</b>	<u>\$ 3,201</u>	<u>\$ 99,013</u>	<u>\$ 39,543</u>	<u>\$ 141,757</u>

## **REQUIRED TEA SCHEDULES**

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**

**SCHEDULE OF DELINQUENT TAXES RECEIVABLE**

*For the Year Ended August 31, 2014*

	1	2	3	10
<u>Last Ten Fiscal Years</u>	<u>Tax Rates</u>		<u>Net Assessed/Appraised Value For School Tax Purposes</u>	<u>Beginning Balance 9/1/2013</u>
	<u>Maintenance</u>	<u>Debt Service</u>		
2005 and prior	Various	Various	Various	\$ 464,114
2006	1.500000	0.087100	3,170,199,357	66,326
2007	1.370050	0.078304	3,818,528,205	76,363
2008	1.040050	0.072700	4,070,666,320	68,998
2009	1.040000	0.144930	4,368,445,589	97,397
2010	1.040000	0.176000	4,118,093,421	124,979
2011	1.040000	0.248600	3,660,903,461	171,877
2012	1.040000	0.255300	3,766,001,390	224,020
2013	1.040000	0.229200	4,036,710,841	376,592
2014	1.040000	0.250900	3,737,856,457	
<b>1000 Totals</b>				<u>\$ 1,670,666</u>

*Exhibit J-1*

<b>20</b>	<b>31</b>	<b>32</b>	<b>40</b>	<b>50</b>
<b>Current Year's Total Levy</b>	<b>Maintenance Total Collections</b>	<b>Debt Service Total Collections</b>	<b>Entire Year's Adjustments</b>	<b>Ending Balance 8/31/2014</b>
\$	\$ 4,175	\$ 242	\$ (13,206)	\$ 446,491
	1,770	103	(3,588)	60,865
	4,244	243	(3,114)	68,762
	2,777	194	(2,387)	63,640
	10,381	1,447	(2,443)	83,126
	19,297	3,265	5,123	107,540
	34,654	8,283	5,554	134,494
	55,374	13,592	5,724	160,778
	128,575	28,336	(5,984)	213,697
<u>48,251,989</u>	<u>38,611,869</u>	<u>9,315,113</u>		<u>325,007</u>
<u>\$ 48,251,989</u>	<u>\$ 38,873,116</u>	<u>\$ 9,370,818</u>	<u>\$ (14,321)</u>	<u>1,664,400</u>
				<u>1,446,284</u>
				<u>\$ 3,110,684</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Exhibit J-5

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND

For the Year Ended August 31, 2014

Data Control Codes		Debt Service			
		Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
		Original	Final		
	<b>Revenues</b>				
5700	Local revenues	\$ 8,673,468	\$ 8,673,468	\$ 9,408,496	\$ 735,028
<b>5020</b>	<b>Total revenues</b>	<u>8,673,468</u>	<u>8,673,468</u>	<u>9,408,496</u>	<u>735,028</u>
	<b>Expenditures</b>				
	<b>Debt Service:</b>				
0071	Principal on long-term debt	4,785,000	4,785,000	4,785,000	
0072	Interest on long-term debt	4,963,200	4,960,700	4,960,700	
0073	Bond issuance costs and fees		2,750	2,748	2
<b>6030</b>	<b>Total Expenditures</b>	<u>9,748,200</u>	<u>9,748,450</u>	<u>9,748,448</u>	<u>2</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(1,074,732)</u>	<u>(1,074,982)</u>	<u>(339,952)</u>	<u>735,030</u>
	<b>Other Financing Sources (Uses)</b>				
7915	Operating transfers in	1,073,312	1,073,312		(1,073,312)
<b>7080</b>	<b>Total other financing sources and uses</b>	<u>1,073,312</u>	<u>1,073,312</u>		<u>(1,073,312)</u>
0100	Net change in fund balances	(1,420)	(1,670)	(339,952)	(338,282)
<b>1300</b>	<b>Fund balances - beginning</b>	<u>2,766,330</u>	<u>2,766,330</u>	<u>2,766,330</u>	
<b>3000</b>	<b>Fund balances - ending</b>	<u>\$ 2,764,910</u>	<u>\$ 2,764,660</u>	<u>\$ 2,426,378</u>	<u>\$ (338,282)</u>



**FEDERAL AWARDS SECTION**

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**INDEPENDENT AUDITOR’S 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**

To the Board of Trustees  
Texas City Independent School District  
Texas City, Texas

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 Texas City Independent School District (the “District”), as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise District’s basic financial statements, and have issued our report thereon dated January 13, 2015.

**Internal Control Over Financial Reporting**

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

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

Our 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.

To the Board of Trustees  
Texas City Independent School District

### **Compliance and Other Matters**

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

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Texas City, Texas  
January 13, 2015

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

To the Board of Trustees  
Texas City Independent School District  
Texas City, Texas

**Report on Compliance for Each Major Federal Program**

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

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

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

To the Board of Trustees  
Texas City Independent School District

## Report on Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



Texas City, Texas  
January 13, 2015

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

**I. Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Noncompliance material to financial statements noted?	No

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiencies identified that are not considered to be material weaknesses?	None reported
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) OMB Circular A-133?	No
Identification of major programs	
Name of Federal Program or Cluster	CFDA Numbers
<b>US Department of Education:</b>	
ESEA Title I, Part A	84.010A
<b>Special Education Cluster:</b>	
IDEA-B, Formula	84.027A
IDEA-B, Preschool	84.173A
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
Auditee qualified as low-risk auditee?	Yes

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
*For the Year Ended August 31, 2014*

**II. Financial Statement Findings**

**None reported**

**III. Federal Awards Findings and Questioned Costs**

**None reported**

**IV. Status of Prior Year Findings**

**#2012-002 Excess Fund Balance in Child Nutrition Fund** – Resolved: At August 31, 2014, the District's Child Nutrition fund balance did not exceed three months of average expenditures.



**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
For the Year Ended August 31, 2014

*Exhibit K-1*

(2A) Pass Through Entity Identifying Number	(1) Federal Grantor/ Pass-Through Grantor/ Program Title	District Fund Number	(2) Federal CFDA Number	(3) Federal Expenditures
<b>U.S. Department of Education</b>				
<b>Passed Through Texas Education Agency:</b>				
14610101084906	<i>ESEA, Title I, Part A</i>	211	84.010A	\$ 1,011,706
146600010849066600	<i>IDEA-B Formula *</i>	224	84.027A	1,066,990
156600010849066600	<i>IDEA-B Formula *</i>	224	84.027A	60,253
146610010849066610	<i>IDEA-B Preschool *</i>	225	84.173A	29,940
156610010849066610	<i>IDEA-B Preschool *</i>	225	84.173A	1,136
14420006084906	<i>Carl D. Perkins Basic Grant</i>	244	84.048A	58,132
15420006084906	<i>Carl D. Perkins Basic Grant</i>	244	84.048A	12,810
14694501084906	<i>Title II, Part A, Teacher/Principal Training</i>	255	84.367A	252,988
15694501084906	<i>Title II, Part A, Teacher/Principal Training</i>	255	84.367A	14,909
14671001084906	<i>Title III , Part A, LEP</i>	263	84.365A	44,774
15671001084906	<i>Title III , Part A, LEP</i>	263	84.365A	930
69551302	<i>Summer School LEP</i>	289	84.369A	3,339
<b>Total U.S. Department of Education</b>				<u>2,557,907</u>
<b>U.S. Department of Health &amp; Human Services</b>				
<b>Direct Award</b>				
06CH706501	<i>Head Start</i>	205	93.600	312,111
06CH706502	<i>Head Start</i>	205	93.600	805,446
<b>Total U.S. Department of Health &amp; Human Services</b>				<u>1,117,557</u>
<b>U.S. Department of Agriculture</b>				
<b>Passed Through the Texas Department of Agriculture:</b>				
Non Cash assistance (Commodities):				
084-906	<i>National School Lunch Program **</i>	240	10.555	<u>220,253</u>
<b>Passed Through Texas Education Agency:</b>				
Cash assistance:				
71301401	<i>National School Lunch Program **</i>	240	10.555	2,075,533
71401401	<i>School Breakfast Program**</i>	240	10.553	757,222
<b>Passed Through Texas Education Agency</b>				<u>2,832,755</u>
<b>Total U.S. Department of Agriculture</b>				<u>3,053,008</u>
<b>Total Expenditures of Federal Awards</b>				<u>\$ 6,728,472</u>

\* Special Education Cluster

\*\* Child Nutrition Cluster

**Note 1 -Basis of Accounting**

The District accounts for all awards under federal programs in the General and Certain Special Revenue Funds in accordance with the Texas Education Agency's *Financial Accountability System Resource Guide*. These programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods

**Note 2 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2014. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

**Note 3 - Reconciliation to Basic Financial Statements**

The following is a reconciliation of expenditures of federal awards program per Exhibit K-1 and expenditures reported on Exhibit C-3:

Total shown on Schedule of Expenditures of Federal Awards	\$ 6,728,472
Federal revenue accounted for in the General Fund	
Medicaid SHARS	<u>345,616</u>
Total Federal Revenue - Exhibit C-3	<u><u>\$ 7,074,088</u></u>

**TEXAS CITY INDEPENDENT SCHOOL DISTRICT**  
**Required Responses to Selected School First Indicators**  
**8/31/2014**

*Exhibit L-1*

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

**DO NOT BIND IN REPORT**