

**TEXAS CITY INDEPENDENT
SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

Year Ended August 31, 2013

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, 2013, at a meeting of the board of trustees of such school district on January 21, 2014.



President of the Board



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, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

To the Board of Trustees
Texas City Independent School District

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, 2013, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the District adopted the provisions of GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities as of August 31, 2013. Our opinion is not modified with respect to this matter.

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 7–14 and 53–54 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

To the Board of Trustees
Texas City Independent School District

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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2014, 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, flowing style.

Texas City, Texas
January 21, 2014

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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, 2013.

Financial Highlights

The assets and deferred outflows of the District exceeded its liabilities at the close of the most recent fiscal year by \$76,384,556 (*net position*). Of this amount, \$38,072,671 (*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 \$1,172,233.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$54,655,714, a decrease of \$13,211,634 in comparison with the prior year. The general fund decreased by \$1,152,889. The capital projects fund balance decreased by \$11,159,782. The debt service fund balance decreased by \$982,362.
- During the current fiscal year, unassigned fund balance for the general fund increased by \$8,925,954, to \$10,658,955, or 21 percent of general fund expenditures.
- The District's total bonded debt decreased by \$4,635,000 (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, deferred outflows and liabilities, with the difference between the three 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 Instructional 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, Plant Maintenance and Operations, Security and Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Bond Issuance Costs and Fees, Facilities Acquisition and Construction, and Payments to Juvenile Justice Alternative Education Programs.

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, the debt service fund and the 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 National School Breakfast and Lunch Program special revenue 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 fund

The fiduciary funds are used to account for resources held for the benefit of students and employees. 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 \$76,384,556 at the close of the most recent fiscal year.

A portion of the District's net position, \$32,623,097 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, 2013, the District's net position included the following:

	Governmental Activities	
	2013	2012 As Restated
Current and other assets	\$ 70,944,231	\$ 84,446,721
Capital assets	135,448,464	125,078,103
Total Assets	206,392,695	209,524,824
Deferred charge on refunding	45,191	91,145
Total Deferred Outflows of Resources	45,191	91,145
Current liabilities	10,338,166	9,596,782
Long term liabilities	119,715,164	124,715,719
Total Liabilities	130,053,330	134,312,501
Net Position		
Net investment in capital assets	32,623,097	25,813,485
Restricted	5,688,788	5,610,170
Unrestricted	38,072,671	43,788,668
Total Net Position	\$ 76,384,556	\$ 75,212,323

Net position are restricted for various purposes as follows:

	Governmental Activities	
	2013	2012
Federal and State Grant Programs	\$ 3,346	\$
Food Service	1,596,800	1,515,532
Debt Service	3,722,639	3,696,112
Campus Activities	366,003	398,526
	\$ 5,688,788	\$ 5,610,170

The remaining balance of unrestricted net position, \$38,072,671, 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 invested in capital assets, restricted, and unrestricted net position. The District's net position increased by \$1,172,233 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, 2013 and 2012

	Governmental Activities	
	2013	2012 As Restated
Revenues		
Program revenues:		
Charges for services	\$ 5,795,514	\$ 1,639,140
Operating grants	8,743,004	9,623,491
General revenues:		
Property taxes	51,186,323	49,417,569
State Aid - Formula Grants	5,579,357	6,638,739
Grants and contributions not restricted		
Interest earnings	83,896	99,218
Other	6,728	4,639,527
Total Revenues	71,394,822	72,057,684
Expenses		
Instruction	31,899,222	36,324,695
Instructional resources and media services	860,368	892,216
Curriculum and staff development	710,048	667,998
Instructional leadership	438,690	448,390
School leadership	3,035,380	3,009,107
Guidance, counseling, and evaluation services	1,729,554	1,602,501
Social work services	133,551	133,072
Health services	495,023	466,040
Student transportation	1,262,721	1,111,231
Food service	3,659,785	3,064,831
Extracurricular activities	2,099,533	2,009,534
General administration	4,768,252	2,242,854
Facilities maintenance and operations	8,679,420	8,427,310
Security and monitoring services	619,225	615,585
Data processing services	1,306,961	465,495
Community services	83,597	104,759
Interest on long-term debt	4,731,674	6,148,985
Facilities repair and maintenance	94,424	70,939
Contracted instructional services between schools	3,047,591	5,292,439
Payments related to shared services arrangements	92,979	106,553
Payments to Juvenile Justice Alternative Education Programs	91,821	88,680
Other governmental charges	382,770	313,524
Total Expenses	70,222,589	73,606,738
Increase (Decrease) in Net Position	1,172,233	(1,549,054)
Net position - beginning	75,212,323	76,761,377
Prior period adjustment	(1,095,101)	
Net position - ending	\$ 76,384,556	\$ 75,212,323

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

Governmental activities

Governmental activities increased the District's net position by \$1,172,233. Revenues are generated primarily from three sources. Property taxes, state-aid formula grants, and operating grants and contributions represent 92 percent of total revenues. The remaining is generated from charges for services, investment earnings, and miscellaneous revenues.

	Total Revenues	% of Total Revenues
Property taxes	\$ 51,186,323	72%
State Aid - Formula Grants	5,579,357	8%
Operating grants and contributions	8,743,004	12%
Other revenue	5,886,138	8%
Total Revenues	\$ 71,394,822	100%

The primary functional expenses of the District are instruction and facilities maintenance and operations, which represent 58 percent of total expenses. The remaining individual functional categories of expenses are each less than 7 percent of total expenses.

	Total Expenses	% of Total Expenses
Instruction	\$ 31,899,222	45%
Facilities maintenance and operations	8,679,420	12%
Other expenses	29,643,947	43%
Total Expenses	\$ 70,222,589	100%

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 \$54,655,714, a decrease of \$13,211,634 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 \$10,658,955, while total fund balance reached \$33,380,769. 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 21 percent of total general fund expenditures, while total fund balance represents 66 percent of that same amount. The fund balance of the District's general fund decreased by \$1,152,889 during the current fiscal year.

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

The debt service fund has a total fund balance of \$2,766,330, 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 \$982,362 was attributable to scheduled payments on debt principal and a court ordered property tax refund.

The capital projects fund has a fund balance of \$16,511,158, all of which is restricted for construction, repairs and renovations. The net decrease in the capital projects fund balance during the current year of \$11,159,782 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:

	Budget	
	Original	Final Amended
Total revenues	\$ 51,261,195	\$ 52,466,321
Total expenditures	(52,135,010)	(53,342,109)
Other financing sources (uses)	507,274	1,192,418
Net change in fund balance	<u>\$ (366,541)</u>	<u>\$ 316,630</u>

Capital Assets and Long-term Liabilities

Capital assets

The District's investment in capital assets for its governmental type activities as of August 31, 2013, includes land, buildings and improvements, furniture and equipment, and construction in progress. The investment in capital assets for the current fiscal year was \$135,448,464. The following table summarizes the investment in capital assets as of August 31, 2013 and 2012.

	2013	2012
Land	\$ 1,465,680	\$ 1,465,680
Buildings and improvements	143,702,104	142,016,099
Furniture and equipment	13,837,010	13,451,103
Construction in progress	15,036,767	2,313,658
Total	<u>174,041,561</u>	<u>159,246,540</u>
Accumulated depreciation	<u>(38,593,097)</u>	<u>(34,259,582)</u>
Net capital assets	<u>\$ 135,448,464</u>	<u>\$ 124,986,958</u>

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

Long-term liabilities

At the end of the current fiscal year, the District had \$114,560,000 in bonded debt outstanding, a decrease of \$4,635,000 over the previous year. The District's 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. The underlying ratings are AA- by Standard and Poor's and Aa3 by Moody's Investor Service.

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

Changes in long-term debt, for the year ended August 31, 2013, are as follows:

<u>Outstanding</u> <u>09/01/12</u>	<u>Issued</u>	<u>Retired</u>	<u>Outstanding</u> <u>08/31/13</u>
<u>\$ 119,195,000</u>	<u>\$</u>	<u>\$ (4,635,000)</u>	<u>\$ 114,560,000</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 value used for the 2013-2014 fiscal year was down approximately \$320 million, or 8% from the previous year. The decrease is primarily due to decreased values for existing petrochemical refining facilities located within the District. Property tax revenues continue to remain uncertain due to potential litigation relating to property values assigned to some of the districts largest taxpayers.
- The tax rate for the 2013-2014 fiscal year is \$1.2909 per \$100 valuation (\$1.04000 for M&O, \$.2509 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".
- Operating expenses per student in the District's general fund are \$9,026 for 2013-2014, based on current budget projections.

These indicators were taken into account when adopting the general fund budget for 2013-2014. The total Texas City Independent School District budget for 2013-2014 is \$69,370,690 for all funds.

Fiscal Year 2013-2014 expenditures are budgeted to increase by approximately \$700,000 from 2012-2013. This is primarily due to an increase of \$1,000,000 due to a 3% raise of salary and a decrease of \$230,000 due to decrease in amount of budget left for technology refurbish expenditures.

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.

BASIC FINANCIAL STATEMENTS

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Exhibit A-1

STATEMENT OF NET POSITION

August 31, 2013

<u>Data Control Codes</u>	<u>Governmental Activities</u>
Assets	
1110 Cash and cash equivalents	\$ 64,680,272
1225 Property taxes receivables, net	1,668,236
1240 Due from other governments	2,879,191
1300 Inventories	173,361
1410 Prepaid items	1,543,171
Capital assets not subject to depreciation:	
1510 Land	1,465,680
1580 Construction in progress	15,036,767
Capital assets net of depreciation:	
1520 Buildings and improvements, net	113,002,488
1530 Furniture and equipment, net	5,943,529
1000 Total Assets	<u>206,392,695</u>
Deferred Outflows of Resources	
1700 Deferred charge on refunding	45,191
Total Deferred Outflows of Resources	<u>45,191</u>
Liabilities	
2110 Accounts payable	5,909,401
2140 Interest payable	215,684
2150 Payroll deductions and withholdings	59,880
2160 Accrued wages payable	28,927
2180 Due to other governments	3,348,700
2190 Due to student groups	475
2200 Accrued expenses	757,272
2300 Unearned revenue	17,827
Noncurrent Liabilities:	
2501 Due within one year	4,868,362
2502 Due in more than one year	114,846,802
2000 Total Liabilities	<u>130,053,330</u>
Net Position	
3200 Net invested in capital assets	32,623,097
Restricted for:	
3820 Federal and state programs	3,346
3840 Food service	1,596,800
3850 Debt service	3,722,639
3870 Campus activity	366,003
3900 Unrestricted	38,072,671
3000 Total net position	<u>\$ 76,384,556</u>

See Notes to the Financial Statements

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2013

Exhibit B-1

Data Control Codes	Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position Primary Government
			Charges for Services	Operating Grants and Contributions	Governmental Activities
	Governmental activities:				
11	Instruction	\$ 31,899,222	\$ 370,668	\$ 4,083,972	\$ (27,444,582)
12	Instructional resources and media services	860,368	67,598	26,580	(766,190)
13	Curriculum and staff development	710,048	73,743	213,132	(423,173)
21	Instructional leadership	438,690		18,788	(419,902)
23	School leadership	3,035,380	30,726	203,523	(2,801,131)
31	Guidance, counseling, and evaluation services	1,729,554		257,345	(1,472,209)
32	Social work services	133,551		71,592	(61,959)
33	Health services	495,023		475,739	(19,284)
34	Student transportation	1,262,721		205,050	(1,057,671)
35	Food service	3,659,785	899,303	2,723,795	(36,687)
36	Extracurricular activities	2,099,533	4,237,148	37,256	2,174,871
41	General administration	4,768,252	36,871	110,573	(4,620,808)
51	Facilities maintenance and operations	8,679,420	79,457	155,797	(8,444,166)
52	Security and monitoring services	619,225		11,260	(607,965)
53	Data processing services	1,306,961		92,654	(1,214,307)
61	Community services	83,597		51,710	(31,887)
72	Interest on long-term debt	4,731,674			(4,731,674)
81	Facilities repairs and maintenance	94,424		4,238	(90,186)
91	Contracted instructional services between schools	3,047,591			(3,047,591)
93	Payments related to shared services arrangements	92,979			(92,979)
95	Payments to Juvenile Justice Alternative Education Programs	91,821			(91,821)
99	Other governmental charges	382,770			(382,770)
TG	Total governmental activities	\$ 70,222,589	\$ 5,795,514	\$ 8,743,004	(55,684,071)

Data Control Codes		
	General revenues:	
	Taxes:	
MT	Property taxes, levied for general purposes	41,923,574
DT	Property taxes, levied for debt service	9,262,749
SF	State-aid formula grants	5,579,357
IE	Investment earnings	83,896
MI	Miscellaneous	6,728
TR	Total general revenues, special items, and transfers	56,856,304
CN	Change in net position	1,172,233
NB	Net position - beginning	76,307,424
PA	Prior period adjustments	(1,095,101)
NE	Net position - ending	\$ 76,384,556

See Notes to the Financial Statements

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

August 31, 2013

<u>Data Control Codes</u>	<u>General Fund</u>	<u>Debt Service Fund</u>
Assets		
1110 Cash and cash equivalents	\$ 33,558,526	\$ 2,766,329
Receivables:		
1220 Delinquent property taxes receivables	2,675,410	341,271
1230 Allowance for uncollectible taxes (credit)	(1,196,805)	(151,640)
1240 Receivables from other governments	1,861,637	
1260 Due from other funds	870,292	
1300 Inventories, at cost	135,657	
1410 Prepaid items	1,431,284	
1000 Total Assets	\$ 39,336,001	\$ 2,955,960
 Liabilities, Deferred Inflows, and Fund Balance		
Liabilities:		
2110 Accounts payable	\$ 1,066,680	\$
2150 Payroll deduction and withholdings payable	59,880	
2160 Accrued wages payable	1,368	
2170 Due to other funds		
2180 Payable to other governments	3,348,700	
2200 Accrued expenses		
2300 Unearned revenues		
2000 Total Liabilities	4,476,628	
 Deferred Inflows of Resources		
2600 Unavailable property tax revenues	1,478,604	189,630
Total Deferred Inflows of Resources	1,478,604	189,630
 Fund Balances:		
Nonspendable :		
3410 Inventories	135,657	
3430 Prepaid items	1,431,284	
Restricted:		
3450 Federal/State grant restrictions		
3470 Capital acquisitions		
3480 Debt service		2,766,330
Committed :		
3545 Other purposes		
Assigned:		
3590 Other assigned	21,154,873	
3600 Unassigned	10,658,955	
3000 Total fund balances	33,380,769	2,766,330
4000 Total Liabilities, Deferred Inflows, and Fund Balances	\$ 39,336,001	\$ 2,955,960

See Notes to the Financial Statements.

Exhibit C-1

<u>Capital Projects</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 21,568,289	\$ 2,210,039	\$ 60,103,183
		3,016,681
		(1,348,445)
	1,017,554	2,879,191
		870,292
	37,704	173,361
87,837	24,050	1,543,171
<u>\$ 21,656,126</u>	<u>\$ 3,289,347</u>	<u>\$ 67,237,434</u>
\$ 4,465,957	\$ 376,166	\$ 5,908,803
		59,880
	27,130	28,498
	870,767	870,767
		3,348,700
679,011		679,011
	17,827	17,827
<u>5,144,968</u>	<u>1,291,890</u>	<u>10,913,486</u>
		1,668,234
		1,668,234
	37,704	173,361
	24,050	1,455,334
	1,600,146	1,600,146
16,511,158		16,511,158
		2,766,330
	366,003	366,003
		21,154,873
	(30,446)	10,628,509
<u>16,511,158</u>	<u>1,997,457</u>	<u>54,655,714</u>
<u>\$ 21,656,126</u>	<u>\$ 3,289,347</u>	<u>\$ 67,237,434</u>

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TEXAS CITY INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET TO
STATEMENT OF NET POSITION
August 31, 2013

Exhibit C-2

<u>Data Control Codes</u>		
	Total fund balance, governmental funds	\$ 54,655,714
	Amounts reported for governmental activities in the statement of net position (A-1) are different because:	
1	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.	135,448,464
2	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).	1,668,237
3	Deferred loss on refunding	45,191
	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:	
4	General obligation bonds	(114,560,000)
5	Premiums on issuance	(4,821,716)
6	Accrued compensated absences	(333,448)
7	Accrued interest payable	(215,684)
8	Addition of Internal Service fund net position	<u>4,497,798</u>
19	Net position - governmental activities	<u><u>\$ 76,384,556</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, 2013

Data Control Codes		General Fund	Debt Service Fund	Capital Projects
Revenues				
5700	Local, intermediate, and out-of-state	\$ 46,336,104	\$ 9,249,736	\$ 28,744
5800	State program revenues	7,370,897		
5900	Federal program revenues	434,025		
5020	Total revenues	<u>54,141,026</u>	<u>9,249,736</u>	<u>28,744</u>
Expenditures				
Current:				
0011	Instruction	25,755,844		
0012	Instructional resources and media services	649,039		
0013	Curriculum and staff development	407,168		
0021	Instructional leadership	423,768		
0023	School leadership	2,753,157		
0031	Guidance, counseling and evaluation services	1,497,233		
0032	Social work services	61,589		
0033	Health services	446,674		
0034	Student transportation	1,083,461		
0035	Food services			
0036	Extracurricular activities	1,544,743		
0041	General administration	2,178,776		
0051	Facilities maintenance and operations	8,472,033		
0052	Security and monitoring services	633,208		
0053	Data processing services	1,196,863		
0061	Community services	23,658		
Debt service:				
0071	Principal on long-term debt		4,635,000	
0072	Interest on long-term debt		5,111,100	
0073	Bond issuance costs and fees		2,500	
Capital outlay:				
0081	Facilities acquisition and construction	13,644		14,588,526
Intergovernmental:				
0091	Contracted instructional services	3,047,591		
0093	Payments related to shared services arrangements	92,979		
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	91,821		
0099	Other governmental charges	382,770		
6030	Total Expenditures	<u>50,756,019</u>	<u>9,748,600</u>	<u>14,588,526</u>
1100	Excess (deficiency) of revenues over expenditures	<u>3,385,007</u>	<u>(498,864)</u>	<u>(14,559,782)</u>
Other Financing Sources (Uses)				
7915	Transfers in	1,329,689		3,400,000
7956	Insurance recovery	1,975		
8911	Operating transfers out	(3,900,000)		
8949	Other uses - court ordered tax refunds	(1,969,560)	(483,498)	
7080	Total other financing sources and uses	<u>(4,537,896)</u>	<u>(483,498)</u>	<u>3,400,000</u>
1200	Net change in fund balances	(1,152,889)	(982,362)	(11,159,782)
0100	Fund Balance - beginning	<u>34,533,658</u>	<u>3,748,692</u>	<u>27,670,940</u>
3000	Fund Balance - ending	<u>\$ 33,380,769</u>	<u>\$ 2,766,330</u>	<u>\$ 16,511,158</u>

See Notes to the Financial Statements.

Exhibit C-3

Other Governmental Funds	Total Governmental Funds
\$ 1,590,921	\$ 57,205,505
361,425	7,732,322
6,079,963	6,513,988
<u>8,032,309</u>	<u>71,451,815</u>
3,318,036	29,073,880
70,267	719,306
279,186	686,354
	423,768
107,206	2,860,363
185,190	1,682,423
68,741	130,330
22,014	468,688
159,116	1,242,577
3,504,392	3,504,392
44,771	1,589,514
38,551	2,217,327
19,503	8,491,536
	633,208
81,279	1,278,142
50,658	74,316
	4,635,000
	5,111,100
	2,500
	14,602,170
	3,047,591
	92,979
	91,821
	382,770
<u>7,948,910</u>	<u>83,042,055</u>
<u>83,399</u>	<u>(11,590,240)</u>
	4,729,689
	1,975
	(3,900,000)
	(2,453,058)
	<u>(1,621,394)</u>
83,399	(13,211,634)
<u>1,914,058</u>	<u>67,867,348</u>
<u>\$ 1,997,457</u>	<u>\$ 54,655,714</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
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, 2013

Exhibit C-4

<u>Data Control Codes</u>		
	Net change in fund balances - total governmental funds (from C-3)	\$ (13,211,634)
	Amounts reported for governmental activities in the statement of activities (B-1) are different because:	
1	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 (\$14,795,021) exceeded depreciation (\$4,333,515) in the current period.	10,461,506
2	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(59,491)
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.	4,635,000
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.	418,842
	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	6,539
6	Increase in long-term portion of accrued compensated absences	(53,287)
7	Amortization of deferred charges	(45,954)
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).	(979,288)
	Change in net position of governmental activities (see B-1)	<u>\$ 1,172,233</u>

See Notes to the Financial Statements.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Exhibit D-1

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

August 31, 2013

Data Control Codes		Governmental Activities - Internal Service Funds
	Assets	
1110	Cash and cash equivalents	\$ 4,577,089
1000	Total Assets	<u>4,577,089</u>
	Liabilities	
	Current Liabilities:	
2110	Accounts payable	601
2150	Payroll deduction and withholdings payable	56
2160	Accrued wages payable	373
2200	Accrued expenses	78,261
	Total current liabilities	<u>79,291</u>
2000	Total Liabilities	<u>79,291</u>
	Net Position	
3900	Unrestricted net position	4,497,798
3000	Total Net Position	<u>\$ 4,497,798</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, 2013

Exhibit D-2

<u>Data Control Codes</u>	<u>Governmental Activities - Internal Service Funds</u>
Operating Revenues	
5700 Charges for Services	\$ 448,558
5800 State Program Revenues	2,749
5020 Total Operating Revenues	<u>451,307</u>
Operating Expenses	
6100 Payroll costs	56,422
6200 Purchased and contracted services	35,653
6300 Supplies and materials	232,489
6400 Claims expense and other operating expenses	279,364
6030 Total Operating Expenses	<u>603,928</u>
1200 Operating Income (Loss)	<u>(152,621)</u>
Non-Operating Revenues (Expenses)	
7020 Investment earnings	3,022
Total Nonoperating Revenues (Expenses)	<u>3,022</u>
Income (Loss) before Transfers	<u>(149,599)</u>
Transfers	
7915 Transfers in	500,000
8911 Transfers out	<u>(1,329,689)</u>
1200 Change in Net Position	(979,288)
0100 Net Position - beginning	<u>5,477,086</u>
3300 Net Position - ending	<u><u>\$ 4,497,798</u></u>

See Notes to the Financial Statements.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended August 31, 2013

Exhibit D-3

	Governmental Activities - Internal Service Funds
Cash Flows from Operating Activities:	
Cash received from customers	\$ 448,558
Cash received from state	2,749
Cash payments for insurance claims	(240,778)
Cash payments to suppliers for goods and services	(269,377)
Cash payments to employees	(56,412)
Net Cash Provided by (Used for) Operating Activities	<u>(115,260)</u>
Cash Flows from Non-Capital Financing Activities:	
Transfers from other funds	500,000
Advances to other funds	(1,329,689)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(829,689)</u>
Cash Flows from Investing Activities:	
Interest on investments	3,022
Net Cash Provided by Investing Activities	<u>3,022</u>
Net Increase in Cash and Cash Equivalents	(941,927)
Cash and Cash Equivalents at Beginning of Year	<u>5,519,016</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 4,577,089</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (152,621)
Change in Assets and Liabilities:	
Increase (decrease) in Accounts Payable	(1,235)
Increase (decrease) in Accrued Wages Payable	10
Increase (decrease) in Accrued Expenses	38,586
Net Cash Provided by (Used for) Operating Activities	<u><u>\$ (115,260)</u></u>

See Notes to the Financial Statements

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Exhibit E-1

STATEMENT OF FIDUCIARY NET POSITION

August 31, 2013

Data Control Codes		Private Purpose Trust Funds	Agency Fund
	Assets		
1110	Cash and cash equivalents	\$ 145,037	\$ 206,605
	Receivables:		
1260	Due from primary government		475
1000	Total Assets	<u>\$ 145,037</u>	<u>\$ 207,080</u>
	Liabilities		
2110	Accounts payable	\$	\$ 20,038
2190	Due to others		187,042
2000	Total Liabilities		<u>\$ 207,080</u>
	Net Position		
3800	Restricted	<u>\$ 145,037</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, 2013

Exhibit E-2

	Private Purpose Trust Funds
Additions	
Local and intermediate sources	\$ 12,777
Total additions	<u>12,777</u>
Deductions	
Non-operating expenses	16,950
Total deductions	<u>16,950</u>
Change in net position	(4,173)
Net position, beginning of year	<u>149,210</u>
Net position, end of year	<u><u>\$ 145,037</u></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.

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 *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.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

Implementation of New Standards

In the current fiscal year, the District implemented the following new standards: GASB Statement 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre- November 30, 1989 FASB and AICPA Pronouncements ("GASB 62"), which incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations; 2) Accounting Principles Board Opinions; 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. Implementation of GASB 62 is reflected in the financial statements and notes to the financial statements.

GASB Statement 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position ("GASB 63"), amends the net asset reporting requirements in Statement No. 34 and other pronouncements by incorporating deferred outflows of the resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position rather than net assets. Implementation of GASB 63 is reflected in the financial statements.

GASB Statement 65, Items Previously Reported as Assets and Liabilities ("GASB 65"), establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of GASB 65 is reflected in the financial statements.

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, 2013. 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 57 percent of outstanding property taxes at August 31, 2013. 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.

Note 1 - Summary of Significant Accounting Policies (continued)

Receivables and Payables (continued)

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.

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

Note 1 - Summary of Significant Accounting Policies (continued)

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.

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. The District only has one item that qualifies for reporting in this category. It is the deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The amount of deferred outflows reported in the governmental activities at August 31, 2013 was \$45,191.

Note 1 - Summary of Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources (continued)

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 unearned revenue for property taxes at August 31, 2013 was \$1,668,234.

Fund Equity

Beginning with fiscal year 2011, the District implemented 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.
- 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, 2013, the District reports an unassigned fund balance of \$10,658,955.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

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. During the year, the District's deposits were fully collateralized; therefore the District was in compliance with the Texas School Depository Act.

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.

Note 2 - Deposits and Investments (continued)

Local Government Investment Pools

For fiscal year 2013, 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>
Governmental Activities		
Investments		
Local Government Investment Pools:		
TexPool	\$ 59,590,953	49
	<u>59,590,953</u>	
Investment Securities:		
ICT Money Market Mutual Fund	5,089,319	50
	<u>5,089,319</u>	
Total Investments	<u>64,680,272</u>	49
Total Governmental Activities	<u>64,680,272</u>	
Fiduciary Funds		
Cash and Deposits	149,864	N/A
TexPool	201,778	49
Total Fiduciary Funds	<u>351,642</u>	
Total	<u>\$ 65,031,914</u>	

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.

Note 2 - Deposits and Investments (continued)

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, 2013, 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 \$59,792,731 in TexPool (a local government investment pool) represents 92% 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, 2013. Investment earnings totaled \$83,896 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:

	General Fund	Debt Service Fund	Other Governmental Funds	Total
Property Taxes	\$ 2,675,410	\$ 341,271	\$	\$ 3,016,681
Due from other governments	1,861,637		1,017,554	2,879,191
Gross Receivables	4,537,047	341,271	1,017,554	5,895,872
Less allowance for doubtful accounts	(1,196,805)	(151,640)		(1,348,445)
Net Total Receivables	\$ 3,340,242	\$ 189,631	\$ 1,017,554	\$ 4,547,427

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 \$17,827 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, 2013, was as follows:

	Balance August 31, 2012	Additions	(Retirements) and Transfers	Balance August 31, 2013
Capital assets, not being depreciated:				
Land	\$ 1,465,680	\$	\$	\$ 1,465,680
Construction in progress	2,313,658	12,802,534	(79,425)	15,036,767
Total Capital assets, not being depreciated	3,779,338	12,802,534	(79,425)	16,502,447
Capital assets, being depreciated:				
Buildings and improvements	142,016,099	1,606,580	79,425	143,702,104
Furniture and equipment	13,451,103	385,907		13,837,010
Total Capital assets, being depreciated	155,467,202	1,992,487	79,425	157,539,114
Less accumulated depreciation for:				
Buildings and improvements	(27,593,569)	(3,106,047)		(30,699,616)
Furniture and Equipment	(6,666,013)	(1,227,468)		(7,893,481)
Total Accumulated depreciation	(34,259,582)	(4,333,515)		(38,593,097)
Governmental Capital Assets	\$ 124,986,958	\$ 10,461,506	\$	\$ 135,448,464

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

Function	Depreciation Expense
Instruction	\$ 2,664,069
Instructional resources and media services	140,878
Curriculum and staff development	23,561
Instructional leadership	14,789
School leadership	174,354
Guidance, counseling and evaluation services	46,599
Social work services	3,181
Health services	26,216
Student transportation	27,685
Food Services	244,990
Extracurricular activities	550,337
General administration	97,929
Plant maintenance and operations	247,196
Security and monitoring services	15,789
Data processing services	46,787
Community services	9,155
	\$ 4,333,515

Construction Commitments

Construction commitments at the end of the fiscal year were as follows:

Project	Approved Construction Budget	Construction in Progress	Remaining Commitment
Blocker Middle School	\$ 33,897,542	\$ 15,036,767	\$ 18,860,775

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, 2013, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>	<u>Net</u>
Governmental Activities			
General Fund	\$ 870,292	\$	\$ 870,292
Nonmajor Governmental Funds		870,767	(870,767)
Total Governmental Funds	870,292	870,767	(475)
Fiduciary Funds	475		475
Total	<u>\$ 870,767</u>	<u>\$ 870,767</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>
			Contribution to Technology
General Fund	Technology Equipment Fund	\$ 500,000	Equipment Replacement Fund
			Additional new Blocker Middle
General Fund	Capital Projects Fund	3,400,000	School funding
Workers Compensation Fund	General Fund	1,329,689	Reimbursement of prior year expenditures
		<u>\$ 5,229,689</u>	from Workers Compensation Fund

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, 2012</u>	<u>Additions</u>	<u>Deductions - Payments to Participants</u>	<u>Balance August 31, 2013</u>
Compensated absences payable	\$ 280,161	\$ 195,648	\$ (142,361)	\$ 333,448

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, 2013, the legal debt margin was \$287,055,698.

Changes in Long-term Liabilities

Long-term liability activity for the year ended August 31, 2013, was as follows:

	<u>Balance September 1, 2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance August 31, 2013</u>	<u>Due Within One Year</u>
General Obligation Bonds	\$ 119,195,000	\$	\$ (4,635,000)	\$ 114,560,000	\$ 4,785,000
Issuance Premiums/Discounts	5,240,558		(418,842)	4,821,716	
Total Bonds and Notes Payable	<u>124,435,558</u>		<u>(5,053,842)</u>	<u>119,381,716</u>	<u>4,785,000</u>
Other Liabilities					
Compensated absences payable	280,161	195,648	(142,361)	333,448	83,362
Total Other Liabilities	<u>280,161</u>	<u>195,648</u>	<u>(142,361)</u>	<u>333,448</u>	<u>83,362</u>
	<u>\$ 124,715,719</u>	<u>\$ 195,648</u>	<u>\$ (5,196,203)</u>	<u>\$ 119,715,164</u>	<u>\$ 4,868,362</u>

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:

<u>Issue</u>	<u>Original issuance amount</u>	<u>Interest Rate (%)</u>	<u>Maturity Date</u>	<u>Debt Outstanding</u>
Unlimited Tax School Building Bonds, Series 2008	\$ 54,565,000	3.5% to 5.0%	2030	\$ 53,275,000
Unlimited Tax School Building Bonds, Series 2009	28,910,000	3.5% to 5.0%	2030	27,510,000
Unlimited Tax School Building Bonds, Series 2010A	25,810,000	2.0-5.0%	2030	24,270,000
Unlimited Tax Refunding Bond Series 2010B	8,170,000	2.0-4.0%	2014	1,535,000
Unlimited Tax School Building Bonds, Series 2011	8,845,000	2.0-4.0%	2030	7,970,000
				<u>\$ 114,560,000</u>

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:

Year Ending August 31,	Principal	Interest	Totals
2014	\$ 4,785,000	\$ 4,960,702	\$ 9,745,702
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>\$ 114,560,000</u>	<u>\$ 51,166,781</u>	<u>\$ 165,726,781</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, 2013, \$4,125,000 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:

	General Fund	Debt Service Fund	Capital Projects	Other Governmental Funds	Total
Property Taxes	\$ 41,920,759	\$ 9,233,418	\$	\$	\$ 51,154,177
Penalties, interest and other tax related revenue	82,295	9,342			91,637
Investment Income	44,110	6,976	28,744	1,044	80,874
Co-curricular student activities	4,194,130			614,524	4,808,654
Tuition and fees	26,536				26,536
Food Sales				896,948	896,948
Other	68,274			78,405	146,679
	<u>\$ 46,336,104</u>	<u>\$ 9,249,736</u>	<u>\$ 28,744</u>	<u>\$ 1,590,921</u>	<u>\$ 57,205,505</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>\$ 434,025</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, 2013. The imputed interest on the leases is not readily determinable.

Rental expenditures for the year ended August 31, 2013, amounted to \$230,128.

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, 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 2013, 2012, and 2011. The State contributed at a rate of 6.4% for fiscal year 2013 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 6.4% for fiscal year 2013, 6.0% for fiscal year 2012, and 6.64% for fiscal year 2011.

Note 11 - Pension Information (continued)

Contributions made by the State, District, and staff members for the years ended August 31, 2013, 2012, and 2011 are as follows:

For the Year Ended August 31	State TRS Contributions Made on Behalf of the District	District Required Contributions to TRS	Staff Members' Contributions to TRS	Total Covered Payroll
2013	\$ 1,615,508	\$ 629,983	\$ 2,145,485	\$ 35,085,789
2012	1,540,096	522,545	2,100,149	34,377,357
2011	1,680,900	638,313	2,234,040	34,906,879

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, 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 .5% and .65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2013, 2012, and 2011. 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 .5%.

Note 12 - Retiree Health Plan (continued)

Contributions made by the State, District, and staff members for the years ended August 31, 2013, 2012, and 2011 are as follows:

For the Year Ended August 31	State TRS Care Contributions Made on Behalf of the District	District Required Contributions to TRS Care	Staff Members' Contributions to TRS Care	Total Covered Payroll
2013	\$ 159,533	\$ 208,873	\$ 228,060	\$ 35,085,789
2012	256,457	276,400	223,453	34,377,357
2011	252,921	288,141	226,894	34,906,879

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, 2013, 2012, and 2011, the subsidy payments received by the TRS-Care on-behalf of the district were \$86,443, \$79,683, and \$72,927 respectively. The payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

The Early Retirement Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55-64 and their covered dependents regardless of age. An “early retiree” is defined as a plan participant aged 55-64 who is eligible for Medicare and is not covered by an active employee of the plan sponsor.

This temporary program is available to help employers continue to provide coverage to early retirees. ERRP reimbursement is available on a first come, first served basis for qualified employers that apply and become certified for this program and has received funds from the ERRP program. These funds must be allocated to reporting agencies using the same basis as the Medicare Part D. For the fiscal years ended August 31, 2013 and 2012, the contribution made on behalf of the District was \$0 and \$75,354 respectively .

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, 2013, 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, 2013 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.

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:

Fiscal Year	Beginning of Year Accrual	Current Year Estimates	Claims Payments	End of Year Accrual
2011	\$ 356,209	\$ 78,750	\$ (301,246)	\$ 133,713
2012	133,713	113,902	(207,940)	39,675
2013	39,675	279,364	(240,778)	78,261

Note 14 - Shared Service Arrangements / Joint Ventures

The District participates in a shared services arrangement for Juvenile Justice Alternative Education Program with eight other school districts. Although 16.5% 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.

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

Revenues	
5700 Local revenue from member districts	\$ 91,821
	<u>\$ 91,821</u>
Expenditures	
6100 Payroll costs	\$ 74,467
6200 Contracted services	15,876
6300 Supplies and materials	1,451
6400 Miscellaneous operating costs	27
	<u>\$ 91,821</u>

The District participates in a shared services arrangement for the Galveston - Brazoria Co-op for Hearing with one other school district. Although 5.6% 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	\$ 78,129
	<u>\$ 78,129</u>
Expenditures	
6100 Payroll costs	\$ 63,316
6200 Contracted services	6,328
6300 Supplies and materials	6,625
6400 Miscellaneous operating costs	1,860
	<u>\$ 78,129</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 a portion 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, 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.

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

Revenues	
5700 Local revenue from member districts	\$ 14,850
	<u>\$ 14,850</u>
Expenditures	
6100 Payroll costs	\$ 11,732
6200 Contracted services	2,079
6300 Supplies and materials	890
6400 Miscellaneous operating costs	149
	<u>\$ 14,850</u>

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, 2013, 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.

Note 18 - Related Organizations

The Texas City Independent School District Foundation for the Future (“Foundation”), a non-profit entity which was organized to provide educational grants, is a “related organization” as defined by *Government Accounting Standards Board* Statement No. 61. The members of the Board of Directors of the Foundation are appointed by an outside taxpayer group.

Note 19 - Deficit Fund Balance

At August 31, 2013, the Instructional Materials Allotment fund had a deficit fund balance of \$6,396. The District plans to eliminate this deficit fund balance through future operations.

Note 20 - Prior Period Adjustment

The District implemented GASB Statement 65, *Items Previously Reported as Assets and Liabilities*, during the fiscal year ended August 31, 2013. In accordance with GASB 65, debt issuance costs should be recognized as an expense in the period incurred. Previously, debt issuance costs were recorded as an asset and amortized over the life of the debt. The implementation of GASB 65 resulted in the following prior period adjustment to the net position of the governmental activities:

Beginning net position - As originally presented	\$ 76,307,424
Restatement due to:	
Effect of change in accounting principle	<u>(1,095,101)</u>
Beginning net position - As restated	<u><u>\$ 75,212,323</u></u>

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REQUIRED SUPPLEMENTARY INFORMATION

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TEXAS CITY INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended August 31, 2013

Exhibit G-1

Data Control Codes	Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)	
	Original	Final			
Revenues					
5700	Local revenues	\$ 43,552,636	\$ 44,371,752	\$ 46,336,104	\$ 1,964,352
5800	State program revenues	7,408,559	7,657,748	7,370,897	(286,851)
5900	Federal program revenues	300,000	436,821	434,025	(2,796)
5020	Total revenues	<u>51,261,195</u>	<u>52,466,321</u>	<u>54,141,026</u>	<u>1,674,705</u>
Expenditures					
Current:					
0011	Instruction	24,366,253	26,116,080	25,755,844	360,236
0012	Instructional resources and media services	676,276	715,873	649,039	66,834
0013	Curriculum and staff development	455,256	657,847	407,168	250,679
0021	Instructional leadership	417,185	478,605	423,768	54,837
0023	School leadership	2,552,569	2,847,023	2,753,157	93,866
0031	Guidance, counseling and evaluation services	1,423,292	1,580,483	1,497,233	83,250
0032	Social work services	56,836	119,036	61,589	57,447
0033	Health services	446,494	508,674	446,674	62,000
0034	Student transportation	1,411,742	1,125,472	1,083,461	42,011
0036	Extracurricular activities	1,283,768	1,552,590	1,544,743	7,847
0041	General administration	2,389,389	2,205,290	2,178,776	26,514
0051	Facilities maintenance and operations	8,500,399	8,474,124	8,472,033	2,091
0052	Security and monitoring services	669,769	640,280	633,208	7,072
0053	Data processing services	1,429,335	1,592,785	1,196,863	395,922
0061	Community services	11,896	76,896	23,658	53,238
Debt Service:					
0071	Principal on long-term debt	500,000	500,001		500,001
Capital Outlay:					
0081	Facilities acquisition and construction	94,921	149,921	13,644	136,277
Intergovernmental:					
0091	Contracted instructional services	4,909,228	3,309,227	3,047,591	261,636
0093	Payments related to shared services arrangements	143,091	144,591	92,979	51,612
0095	Payments to Juvenile Justice Alt. Ed. Prgm.	25,000	100,000	91,821	8,179
0099	Payments to other governments	372,311	447,311	382,770	64,541
6030	Total Expenditures	<u>52,135,010</u>	<u>53,342,109</u>	<u>50,756,019</u>	<u>2,586,090</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(873,815)</u>	<u>(875,788)</u>	<u>3,385,007</u>	<u>4,260,795</u>
Other Financing Sources (Uses)					
7915	Operating transfers in	1,190,443	1,190,443	1,329,689	139,246
7956	Insurance recovery		1,975	1,975	
8911	Operating transfers out	(683,169)		(3,900,000)	(3,900,000)
8949	Other uses - court ordered property tax refunds			(1,969,560)	(1,969,560)
7080	Total other financing sources and uses	<u>507,274</u>	<u>1,192,418</u>	<u>(4,537,896)</u>	<u>(5,730,314)</u>
1200	Net change in fund balances	(366,541)	316,630	(1,152,889)	(1,469,519)
0100	Fund balances - beginning	<u>34,533,658</u>	<u>34,533,658</u>	<u>34,533,658</u>	
3000	Fund balances - ending	<u>\$ 34,167,117</u>	<u>\$ 34,850,288</u>	<u>\$ 33,380,769</u>	<u>\$ (1,469,519)</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, 2013. During the year ended August 31, 2013, the Board of Trustees approved budget amendments increasing expenditures as follows:

	<u>General Fund</u>	<u>Child Nutrition Fund</u>
Amendments Approved	\$ 1,207,099	\$ 530,000

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, 2012. 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, 2013

Data Control Codes		205	211	224
		<u>Head Start</u>	<u>ESEA Title I, A - Improving Basic Program</u>	<u>IDEA B - Formula</u>
	Assets			
1110	Cash and temporary investments	\$	\$	\$
1240	Receivables from other governments	198,959	206,994	267,784
1310	Inventories, at cost			
1410	Prepaid items	8,946	9,574	4,302
1000	Total Assets	<u>\$ 207,905</u>	<u>\$ 216,568</u>	<u>\$ 272,086</u>
	Liabilities and Fund Balances			
	Liabilities:			
	Current Liabilities:			
2110	Accounts payable	\$ 56,643	\$ 45,451	\$ 1,640
2160	Accrued wages payable			
2170	Due to other funds	151,262	171,117	270,446
2300	Unearned revenues			
2000	Total Liabilities	<u>207,905</u>	<u>216,568</u>	<u>272,086</u>
	Fund Balances:			
	Nonspendable:			
3410	Inventories			
3430	Prepaid items	8,946	9,574	4,302
	Restricted:			
3450	Federal/State grant restrictions			
	Committed:			
3545	Other purposes			
3600	Unassigned	(8,946)	(9,574)	(4,302)
3000	Total fund balances	<u>(8,946)</u>	<u>(9,574)</u>	<u>(4,302)</u>
4000	Total Liabilities and Fund Balances	<u>\$ 207,905</u>	<u>\$ 216,568</u>	<u>\$ 272,086</u>

225	240	244	255	263	277
IDEA B - Preschool	Child Nutrition Fund	Vocational Ed. - Basic	ESEA Title II, A - Training and Recruiting	ESEA Title III, A - English Lang. Acquisition	Homelessness Prevention Program
\$ 4,852	\$ 1,784,051 64,986 37,704	\$ 9,740	\$ 70,059	\$ 12,321	\$ 152,795
541			100	587	
<u>\$ 5,393</u>	<u>\$ 1,886,741</u>	<u>\$ 9,740</u>	<u>\$ 70,159</u>	<u>\$ 12,908</u>	<u>\$ 152,795</u>
\$ 5,393	\$ 225,184 27,053	\$ 2,515 77 7,148	\$ 70,159	\$ 12,908	\$ 152,795
<u>5,393</u>	<u>252,237</u>	<u>9,740</u>	<u>70,159</u>	<u>12,908</u>	<u>152,795</u>
541	37,704		100	587	
	1,596,800				
(541)			(100)	(587)	
	1,634,504				
<u>\$ 5,393</u>	<u>\$ 1,886,741</u>	<u>\$ 9,740</u>	<u>\$ 70,159</u>	<u>\$ 12,908</u>	<u>\$ 152,795</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
August 31, 2013

Data Control Codes		289	393	397
		Locally Defined Special Revenue Fund	Texas Successful Schools Program	Advanced Placement Incentive
	Assets			
1110	Cash and temporary investments	\$ 3,346	\$ 9,993	\$ 1,308
1240	Receivables from other governments			
1310	Inventories, at cost			
1410	Prepaid items			
1000	Total Assets	\$ 3,346	\$ 9,993	\$ 1,308
	Liabilities and Fund Balance			
	Liabilities:			
	Current Liabilities:			
2110	Accounts payable	\$	\$	\$
2160	Accrued wages payable			
2170	Due to other funds			
2300	Unearned revenues		9,993	1,308
2000	Total Liabilities		9,993	1,308
	Fund Balances:			
	Nonspendable:			
3410	Inventories			
3430	Prepaid items			
	Restricted:			
3450	Federal/State grant restrictions	3,346		
	Committed:			
3545	Other purposes			
3600	Unassigned			
3000	Total fund balances	3,346		
4000	Total Liabilities and Fund Balances	\$ 3,346	\$ 9,993	\$ 1,308

404	410	461	Total Nonmajor Governmental Funds
Student Success Initiative	Instructional Materials Allotment	Campus Activity Fund	
\$ 29,064	\$ 21,221	\$ 390,120	\$ 2,210,039
			1,017,554
			37,704
			24,050
<u>\$ 29,064</u>	<u>\$ 21,221</u>	<u>\$ 390,120</u>	<u>\$ 3,289,347</u>
\$ 29,064	\$ 21,091	\$ 23,642	\$ 376,166
			27,130
29,064		475	870,767
	6,526		17,827
<u>29,064</u>	<u>27,617</u>	<u>24,117</u>	<u>1,291,890</u>
			37,704
			24,050
			1,600,146
		366,003	366,003
	(6,396)		(30,446)
	(6,396)	366,003	1,997,457
<u>\$ 29,064</u>	<u>\$ 21,221</u>	<u>\$ 390,120</u>	<u>\$ 3,289,347</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, 2013

<u>Data Control Codes</u>		205	211	224
		<u>Head Start</u>	<u>ESEA Title I, A - Improving Basic Program</u>	<u>IDEA B - Formula</u>
	Revenues			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues			
5900	Federal program revenues	889,899	904,896	1,229,799
5020	Total revenues	<u>889,899</u>	<u>904,896</u>	<u>1,229,799</u>
	Expenditures			
	Current:			
0011	Instruction	617,463	829,827	968,622
0012	Instruction resources and media services			
0013	Curriculum and instructional staff development	23,919		53,141
0023	School leadership	76,839		
0031	Guidance, counseling and evaluation services			165,183
0032	Social work services		68,741	
0033	Health services	22,014		
0034	Student transportation	116,263		42,853
0035	Food service			
0036	Extracurricular activities			
0041	General administration			
0051	Plant maintenance and operations			
0053	Data processing services			
0061	Community services	33,401	6,328	
6030	Total Expenditures	<u>889,899</u>	<u>904,896</u>	<u>1,229,799</u>
1200	Net change in fund balances			
0100	Fund balance - beginning	<u> </u>	<u> </u>	<u> </u>
3000	Fund balance - ending	<u>\$ </u>	<u>\$ </u>	<u>\$ </u>

225	240	244	255	263	277
IDEA B - Preschool	Child Nutrition Fund	Vocational Ed. - Basic	ESEA Title II, A - Training and Recruiting	ESEA Title III, A - English Lang. Acquisition	Homelessness Prevention Program
\$	\$ 899,569 76,857	\$	\$	\$	\$
<u>33,645</u>	<u>2,646,938</u>	<u>53,224</u>	<u>261,394</u>	<u>56,822</u>	<u> </u>
<u>33,645</u>	<u>3,623,364</u>	<u>53,224</u>	<u>261,394</u>	<u>56,822</u>	<u> </u>
33,645		18,855	170,773	56,822	
		3,433	90,621		
		20,007			
	3,504,392				
<u>33,645</u>	<u>3,504,392</u>	<u>10,929</u> <u>53,224</u>	<u>261,394</u>	<u>56,822</u>	<u> </u>
	118,972				
	<u>1,515,532</u>				
<u>\$</u>	<u>\$ 1,634,504</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, 2013

<u>Data Control Codes</u>		289	393	397
		<u>Locally Defined Special Revenue Fund</u>	<u>Texas Successful Schools Program</u>	<u>Advanced Placement Incentive</u>
	Revenues			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues			
5900	Federal program revenues	3,346		
5020	Total revenues	<u>3,346</u>		
	Expenditures			
	Current:			
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			
0035	Food service			
0036	Extracurricular activities			
0041	General administration			
0051	Plant maintenance and operations			
0053	Data processing services			
0061	Community services			
6030	Total Expenditures			
1200	Net change in fund balances	3,346		
0100	Fund balance - beginning			
3000	Fund balance - ending	<u>\$ 3,346</u>	<u>\$</u>	<u>\$</u>

404	410	461	
<u>Student Success Initiative</u>	<u>Instructional Materials Allotment</u>	<u>Campus Activity Fund</u>	<u>Total-Other Governmental Funds</u>
\$ 29,064	\$ 76,050 255,504	\$ 615,302	\$ 1,590,921 361,425 6,079,963
<u>29,064</u>	<u>331,554</u>	<u>615,302</u>	<u>8,032,309</u>
1,327	256,671	364,031	3,318,036
		70,267	70,267
27,737		80,335	279,186
		30,367	107,206
			185,190
			68,741
			22,014
			159,116
			3,504,392
		44,771	44,771
		38,551	38,551
		19,503	19,503
	81,279		81,279
			50,658
<u>29,064</u>	<u>337,950</u>	<u>647,825</u>	<u>7,948,910</u>
	(6,396)	(32,523)	83,399
		398,526	1,914,058
<u>\$</u>	<u>\$ (6,396)</u>	<u>\$ 366,003</u>	<u>\$ 1,997,457</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Exhibit H-3

COMBINING STATEMENT OF NET POSITION

INTERNAL SERVICE FUNDS

For the Year Ended August 31, 2013

Data Control Codes	773 Worker's Compensation	797 Technology Equipment	Total
Assets			
Current assets:			
1110 Cash and cash equivalents	\$ 3,443,038	\$ 1,134,051	\$ 4,577,089
1000 Total Assets	3,443,038	1,134,051	4,577,089
Liabilities			
Current Liabilities:			
2110 Accounts payable	\$ 601	\$	\$ 601
2150 Payroll deduction and withholdings payable	56		56
2160 Accrued wages payable	373		373
2200 Accrued expenses	78,261		78,261
2000 Total Liabilities	79,291		79,291
Net Position			
3900 Unrestricted net position	3,363,747	1,134,051	4,497,798
3000 Total Net Position	\$ 3,363,747	\$ 1,134,051	\$ 4,497,798

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET POSITION
INTERNAL SERVICE FUNDS
For the Year Ended August 31, 2013

Exhibit H-4

Data Control Codes	773 Worker's Compensation	797 Technology Equipment	Total
Operating Revenues			
5700	\$ 448,558	\$	\$ 448,558
5800	2,749		2,749
5020	451,307		451,307
Operating Expenses			
6100	56,422		56,422
6200	35,653		35,653
6300		232,489	232,489
6400	279,364		279,364
6030	371,439	232,489	603,928
1200	79,868	(232,489)	(152,621)
Non-Operating Revenues (Expenses)			
7020	3,022		3,022
	3,022		3,022
	82,890	(232,489)	(149,599)
Transfers			
7915		500,000	500,000
8911	(1,329,689)		(1,329,689)
1200	(1,246,799)	267,511	(979,288)
Net Position			
0100	4,610,546	866,540	5,477,086
3300	\$ 3,363,747	\$ 1,134,051	\$ 4,497,798

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
Year Ended August 31, 2013

Exhibit H-5

	773	797	
	<u>Worker's Compensation</u>	<u>Technology Equipment</u>	<u>Total</u>
Increase (Decrease) in Cash and Cash Equivalents			
Cash Flows from Operating Activities:			
Cash received from user charges	\$ 448,558	\$	\$ 448,558
Cash received from state	2,749		2,749
Cash payments for insurance claims	(240,778)		(240,778)
Cash payments to suppliers for goods and services	(36,888)	(232,489)	(269,377)
Cash payments to employees	(56,412)		(56,412)
Net Cash Provided by (Used for) Operating Activities	<u>117,229</u>	<u>(232,489)</u>	<u>(115,260)</u>
Cash Flows from Non-Capital Financing Activities:			
Transfers from other funds		500,000	500,000
Advances to other funds	(1,329,689)		(1,329,689)
Net Cash Provided by (Used for) Non-Capital Financing Activities	<u>(1,329,689)</u>	<u>500,000</u>	<u>(829,689)</u>
Cash Flows from Investing Activities:			
Interest on investments	3,022		3,022
Net Cash Provided by Investing Activities	<u>3,022</u>		<u>3,022</u>
Net Increase in Cash and Cash Equivalents	(1,209,438)	267,511	(941,927)
Cash and Cash Equivalents at Beginning of Year	4,652,476	866,540	5,519,016
Cash and Cash Equivalents at End of Year	<u>\$ 3,443,038</u>	<u>\$ 1,134,051</u>	<u>\$ 4,577,089</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating Income (Loss)	\$ 79,868	\$ (232,489)	\$ (152,621)
Adjustments to Reconcile Operating Income to Net Cash:			
Increase (decrease) in Accounts Payable	(1,235)		(1,235)
Increase (decrease) in Accrued Wages Payable	10		10
Increase (decrease) in Accrued Expenses	38,586		38,586
Net Cash Provided by (Used for) Operating Activities	<u>\$ 117,229</u>	<u>\$ (232,489)</u>	<u>\$ (115,260)</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF NET POSITION - PRIVATE PURPOSE TRUST FUNDS
 August 31, 2013

Exhibit H-6

	828	848	849			
<u>Data Control Codes</u>	<u>Project Garden Grant</u>	<u>Employee Scholarship Fund</u>	<u>Heatherington Scholarship</u>	<u>Total Private Purpose Trust Funds</u>	<u>Agency Funds</u>	
Assets						
1110	Cash and cash equivalents	\$ 3,201	\$ 102,327	\$ 39,509	\$ 145,037	\$ 206,605
Receivables:						
1260	Due from other Funds					475
1000	Total Assets	<u>\$ 3,201</u>	<u>\$ 102,327</u>	<u>\$ 39,509</u>	<u>\$ 145,037</u>	<u>\$ 207,080</u>
Liabilities						
2110	Accounts payable					20,038
2190	Due to others					187,042
2000	Total Liabilities					<u>207,080</u>
Net Position						
3800	Restricted	<u>\$ 3,201</u>	<u>\$ 102,327</u>	<u>\$ 39,509</u>	<u>\$ 145,037</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, 2013

Exhibit H-7

	828	848	849	
	Project Garden Grant	Employee Scholarship Fund	Heatherington Scholarship	Total
Additions				
Local and Intermediate Sources	\$	\$ 12,725	\$ 52	\$ 12,777
Total additions		12,725	52	12,777
Deductions				
Other operating expenses		16,950		16,950
Total deductions		16,950		16,950
Change in net position		(4,225)	52	(4,173)
Net position, beginning of year	3,201	106,552	39,457	149,210
Net position, end of year	\$ 3,201	\$ 102,327	\$ 39,509	\$ 145,037

REQUIRED TEA SCHEDULES

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF DELINQUENT TAXES RECEIVABLE

For the Year Ended August 31, 2013

Last Ten Fiscal Years	1		2	3	10
	Tax Rates		Net Assessed/Appraised Value For School Tax Purposes	Beginning Balance 9/1/2012	
	Maintenance	Debt Service			
2004 and prior	Various	Various	Various	\$ 742,640	
2005	1.500000	0.113000	2,820,369,267	70,618	
2006	1.500000	0.087100	3,170,199,357	74,943	
2007	1.370050	0.078304	3,818,528,205	89,150	
2008	1.040050	0.072700	4,070,666,320	85,977	
2009	1.040000	0.144930	4,368,445,589	125,410	
2010	1.040000	0.176000	4,118,093,421	164,425	
2011	1.040000	0.248600	3,660,903,461	255,950	
2012	1.040000	0.255300	3,766,001,390	372,190	
2013	1.040000	0.229200	4,036,710,841		
1000 Totals				\$ 1,981,303	

Exhibit J-1

20	31	32	40	50
Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 8/31/2013
\$	\$ 8,272	\$ 623	\$ (333,347)	\$ 400,398
	1,687	127	(5,088)	63,716
	3,452	200	(4,965)	66,326
	6,437	368	(5,982)	76,363
	11,520	805	(4,654)	68,998
	20,397	2,842	(4,774)	97,397
	30,201	5,111	(4,134)	124,979
	62,175	14,862	(7,036)	171,877
	103,195	25,363	(19,612)	224,020
<u>51,233,934</u>	<u>41,673,208</u>	<u>9,184,134</u>		<u>376,592</u>
<u>\$ 51,233,934</u>	<u>\$ 41,920,544</u>	<u>\$ 9,234,435</u>	<u>\$ (389,592)</u>	<u>1,670,666</u>
				<u>1,346,015</u>
				<u>\$ 3,016,681</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES FOR COMPUTATION OF
INDIRECT COSTS FOR 2014-2015
GENERAL AND SPECIAL REVENUE FUNDS
For the Year Ended August 31, 2013

Exhibit J-2

FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION AND FUNCTION 99 (APPRAISAL DISTRICT COSTS)

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$	\$ 81,643	\$ 246,974	\$ 1,168,805	\$	\$ 69,889	\$ 1,567,311
6149	Fringe Benefits (Terminal Leave Only for Separating Employees in Function 41 and Related 53)							
6149	Fringe Benefits (Terminal Leave Only for Separating Employees in all Functions except Function 41 and Related 53)							
6211	Legal Services					122,596		122,596
6212	Audit Services				50,500			50,500
6213	Tax Appraisal and Collection (Appraisal district costs only from function 99)		382,770					382,770
6214	Lobbying							
621X	Other Prof. Services				79,175			79,175
6220	Tuition and Transfer Payments							
6230	Education Service Centers				1,767			1,767
6240	Contr. Maint. and Repair					456,668		456,668
6250	Utilities							
6260	Rentals				32,196			32,196
6290	Miscellaneous Contr.				46,913			46,913
6320	Textbooks and Reading			926	342			1,268
6330	Testing Materials							
63XX	Other Supplies Materials		4,081	1,975	77,907			83,963
6410	Travel, Subsistence, Stipends	13,433	2,372	4,524	25,092			45,421
6420	Ins. and Bonding Costs	31,895	250	1,650	802			34,597
6430	Election Costs							
6490	Miscellaneous Operating	25,142	220	17,091	98,636			141,089
6500	Debt Service							
6600	Capital Outlay							
6000	TOTAL	\$ 70,470	\$ 471,336	\$ 273,140	\$ 1,582,135	\$ 579,264	\$ 69,889	\$ 3,046,234

Total expenditures/expenses for General and Special Revenue Funds
 (plus Food Service Enterprise Fund if present) 9 \$ 58,704,929

Less: Deductions of Unallowable Costs

Fiscal Year	
Total Capital Outlay (6600)	10 \$ 206,495
Total Debt & Lease (6500)	11
Plant Maintenance (Function 51, 6100-6400)	12 8,453,014
Food (Function 35, 6341 and 6499)	13 1,489,736
Stipends (6413)	14
Column 4 (above) - Total Indirect Cost	1,582,135
Subtotal:	11,731,380
Net Allowed Direct Cost	\$ 46,973,549

Cumulative

Total Cost of Buildings before Depreciation (1520)	15 \$ 143,702,104
Historical Cost of Buildings over 50 years old	16 4,461,695
Amount of Federal Money in building Cost (Net of #16)	17 430,625
Total Cost of Furniture & Equipment before Depreciation (1530&1540)	18 13,837,010
Historical Cost of Furniture & Equipment over 16 years old	19 542,726
Amount of Federal Money in Furniture & Equipment (Net of #19)	20 993,541

(8) Note A - \$ 446,137 in Function 53 expenditures directly related to Function 41 only are included in this report on administrative costs.
 \$ 382,770 in function 99 expenditures directly related to appraisal district costs are included in this report.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION FUND
For the Year Ended August 31, 2013

Exhibit J-4

		Child Nutrition Fund			
		Budgeted Amounts			
Data Control Codes		Original	Final	Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
Revenues					
5700	Local revenues	\$ 1,009,714	\$ 1,209,714	\$ 899,569	\$ (310,145)
5800	State program revenues	18,500	98,500	76,857	(21,643)
5900	Federal program revenues	2,575,578	2,825,578	2,646,938	(178,640)
5020	Total revenues	<u>3,603,792</u>	<u>4,133,792</u>	<u>3,623,364</u>	<u>(510,428)</u>
Expenditures					
Current:					
0035	Food services	3,602,275	4,132,275	3,504,392	627,883
6030	Total Expenditures	<u>3,602,275</u>	<u>4,132,275</u>	<u>3,504,392</u>	<u>627,883</u>
1200	Net change in fund balances	1,517	1,517	118,972	117,455
0100	Fund balances - beginning	<u>1,515,532</u>	<u>1,515,532</u>	<u>1,515,532</u>	
3000	Fund balances - ending	<u>\$ 1,517,049</u>	<u>\$ 1,517,049</u>	<u>\$ 1,634,504</u>	<u>\$ 117,455</u>

TEXAS CITY INDEPENDENT SCHOOL DISTRICT

Exhibit J-5

BUDGETARY COMPARISON SCHEDULE

DEBT SERVICE FUND

For the Year Ended August 31, 2013

Data Control Codes		Debt Service			
		Budgeted Amounts		Actual Amounts, Budgetary Basis	Variance with Final Budget - Positive (Negative)
		Original	Final		
	Revenues				
5700	Local revenues	\$ 8,708,285	\$ 8,708,385	\$ 9,249,736	\$ 541,351
5020	Total revenues	<u>8,708,285</u>	<u>8,708,385</u>	<u>9,249,736</u>	<u>541,351</u>
	Expenditures				
	Debt Service:				
0071	Principal on long-term debt	4,635,000	4,635,000	4,635,000	
0072	Interest on long-term debt	5,111,000	5,111,100	5,111,100	
0073	Bond issuance costs and fees	2,500	2,500	2,500	
6030	Total Expenditures	<u>9,748,500</u>	<u>9,748,600</u>	<u>9,748,600</u>	
1100	Excess (deficiency) of revenues over expenditures	<u>(1,040,215)</u>	<u>(1,040,215)</u>	<u>(498,864)</u>	<u>541,351</u>
	Other Financing Sources (Uses)				
7915	Operating transfers in	1,042,675	1,042,675		(1,042,675)
8949	Other uses - court ordered property tax refunds			(483,498)	(483,498)
7080	Total other financing sources and uses	<u>1,042,675</u>	<u>1,042,675</u>	<u>(483,498)</u>	<u>(1,526,173)</u>
0100	Net change in fund balances	2,460	2,460	(982,362)	(984,822)
1300	Fund balances - beginning	<u>3,748,692</u>	<u>3,748,692</u>	<u>3,748,692</u>	
3000	Fund balances - ending	<u>\$ 3,751,152</u>	<u>\$ 3,751,152</u>	<u>\$ 2,766,330</u>	<u>\$ (984,822)</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, 2013, and the related notes to the financial statements, which collectively comprise District’s basic financial statements, and have issued our report thereon dated January 21, 2014.

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.

Whitley Penn LLP

Texas City, Texas
January 21, 2014

**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, 2013. 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, 2013.

To the Board of Trustees
Texas City Independent School District

Other Matters

The results of our auditing procedures disclosed an instance of non-compliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item #2012-002. Our opinion on each major federal program is not modified with respect to this matter.

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

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 21, 2014

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2013

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
US Department of Agriculture:	
<i>Child Nutrition Cluster:</i>	
National School Lunch Program	10.555
National School Breakfast Program	10.553
USDA Commodities	10.555
US Department of Health and Human Services	
Head Start	93.600
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, 2013

II. Financial Statement Findings

None reported

III. Federal Awards Findings and Questioned Costs

Finding #2012-002 - Excess Child Nutrition Fund Balance

Child Nutrition Cluster:

National School Lunch Program (CFDA #10.555)

National School Breakfast Program (CFDA #10.553)

USDA Commodities (CFDA #10.555)

Criteria: Per Section 14.2 of the Texas Department of Agriculture's Administrative Reference Manual and also referenced in Section 1.3.2.4 of the Texas Education Agency's (TEA) Financial Accountability Resource Guide, the fund balance in the Child Nutrition Fund cannot exceed three months of average expenditures.

Condition: Fund balance in the Child Nutrition Fund exceeded three months of average expenditures by \$636,241.

Questioned Costs: None

Effect: The District is not in compliance with the Texas Department of Agriculture's fund balance requirement.

Cause: Current year expenditures did not reduce fund balance below the three months average fund balance requirement.

Recommendation: The District should evaluate its future spending to ensure its Child Nutrition fund balance is within the Texas Department of Agriculture's fund balance level.

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For the Year Ended August 31, 2013

IV. Status of Prior Year Findings

#12-01 Maintenance of Effort for Special Education – Resolved: The District properly maintained fiscal effort for special education in the 2013 fiscal year.

#12-02 Excess Fund Balance in Child Nutrition Fund – Unresolved: See current year finding #2012-002

V. Corrective Action

Finding #2012-002
Excess Child Nutrition Fund
Balance

Contact Person: William Roblyer

Response: A required reduction plan has been submitted and approved by the Texas Department of Agriculture. The District plans to use a portion of this money for the cafeteria at the new middle school.

Estimated Date of Completion: August 31, 2015

TEXAS CITY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2013

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
U.S. Department of Education				
Passed Through Texas Education Agency:				
12610101084906	<i>ESEA, Title I, Part A</i>	211	84.010A	\$ 1,754
13610101084906	<i>ESEA, Title I, Part A</i>	211	84.010A	853,995
14610101084906	<i>ESEA, Title I, Part A</i>	211	84.010A	49,147
126600010849066000	<i>IDEA-B Formula *</i>	224	84.027A	30,861
136600010849066000	<i>IDEA-B Formula *</i>	224	84.027A	1,122,448
146600010849066000	<i>IDEA-B Formula *</i>	224	84.027A	76,490
126610010849066000	<i>IDEA-B Preschool *</i>	225	84.173A	2,280
136610010849066000	<i>IDEA-B Preschool *</i>	225	84.173A	29,681
146610010849066000	<i>IDEA-B Preschool *</i>	225	84.173A	1,684
13420006084906	<i>Carl D. Perkins Basic Grant</i>	244	84.048A	43,484
14420006084906	<i>Carl D. Perkins Basic Grant</i>	244	84.048A	9,740
12694501084906	<i>Title II, Part A, Teacher/Principal Training</i>	255	84.367A	20,066
13694501084906	<i>Title II, Part A, Teacher/Principal Training</i>	255	84.367A	225,072
14694501084906	<i>Title II, Part A, Teacher/Principal Training</i>	255	84.367A	16,256
12671001084906	<i>Title III, Part A, LEP</i>	263	84.365A	7,743
13671001084906	<i>Title III, Part A, LEP</i>	263	84.365A	47,243
14671001084906	<i>Title III, Part A, LEP</i>	263	84.365A	1,836
69551202	<i>Title VI, Part A, Summer School LEP</i>	199	84.369A	3,346
Total U.S. Department of Education				2,543,126
U.S. Department of Health & Human Services				
Passed through Hitchcock I.S.D. :				
13-084-906	<i>Head Start</i>	205	93.600	186,530
12-084-906	<i>Head Start</i>	205	93.600	490,598
11-084-906	<i>Head Start</i>	205	93.600	212,771
Total Passed through Hitchcock I.S.D.				889,899
Total U.S. Department of Health & Human Services				889,899
U.S. Department of Agriculture				
Passed Through the Texas Department of Agriculture:				
<i>Non Cash assistance (Commodities):</i>				
71301301	<i>National School Lunch Program **</i>	240	10.555	174,074
Passed Through Texas Education Agency:				
71301301	<i>National School Lunch Program **</i>	240	10.555	1,836,143
71401301	<i>School Breakfast Program**</i>	240	10.553	636,721
Passed Through Texas Education Agency				2,472,864
Total U.S. Department of Agriculture				2,646,938
Total Expenditures of Federal Awards				\$ 6,079,963

* 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, 2013. 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	\$ 6,079,963
Federal revenue accounted for in the General Fund	
Medicaid SHARS	<u>434,025</u>
Total Federal Revenue - Exhibit C-3	<u><u>\$ 6,513,988</u></u>

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TEXAS CITY INDEPENDENT SCHOOL DISTRICT
Required Responses to Selected School First Indicators
8/31/2013

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