

ANNUAL FINANCIAL REPORT

of

**HITCHCOCK
INDEPENDENT SCHOOL DISTRICT**

**For the Year Ended
August 31, 2023**

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HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
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INTRODUCTORY SECTION

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CERTIFICATE OF BOARD

Hitchcock
Independent School District
Name of School District

Galveston
County

084-908
Co. Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2023 at a meeting of the Board of Trustees of such school district on the 26th day of February, 2024



Signature of Board Secretary



Signature of Board President

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

(attach list as necessary)

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Hitchcock Independent School District:

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hitchcock Independent School District (the "District"), as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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, 2023, and the respective changes in financial position for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison schedule, schedules of the District's proportionate share of the net pension and other postemployment benefits liability, and schedules of contributions, identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary 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 accompanying combining statements and schedules and schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and 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 Information

Management is responsible for the other information included in the annual report. The other information comprises the introductory section and the schedule of required responses to selected school first indicators but does not include the basic financial statements and our auditors' report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the basic financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the basic financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 2, 2024 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
February 2, 2024

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

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HITCHCOCK

INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended August 31, 2023

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of Hitchcock Independent School District (the "District") for the year ending August 31, 2023. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the District's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The District's total combined net position at year end was a deficit of \$1,662,898.
- For the fiscal year ended August 31, 2023, the District's general fund reported a total fund balance of \$1,411,794, of which \$390,639 is nonspendable for inventories and prepaid items and \$1,021,155 is unassigned.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds, the debt service fund, and the capital projects fund) reported a combined ending fund balance of \$45,416,741.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2023

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

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

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

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

FUND FINANCIAL STATEMENTS

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

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

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2023

The District has the following kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Fiduciary fund* – The District serves as the trustee, or fiduciary, for certain funds such as the student activity fund. The District is responsible for ensuring that the assets reported in this fund are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position reported a deficit of \$1,662,898 at August 31, 2023. *Table 1* focuses on net position while *Table 2* shows the revenues and expenses that changed the net position balance during the fiscal year ended August 31, 2023. Within *Table 2*, the District reported an increase of \$1,888,767 in combined net position from the prior year. Total assets decreased \$1,843,765 which includes a decrease in current assets of \$5,285,675 primarily from spending on capital projects. The net increase in capital assets is from capital additions, net of depreciation expense. Total deferred outflows of resources increased and total deferred inflows of resources decreased largely due to changes in deferred outflows and inflows from pensions and other postemployment benefits. Total liabilities decreased primarily due to a decrease in long-term liabilities as a result of principal debt payments and from a decrease in current liabilities as a result of a decrease in funding owed to other governments.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2023

Table 1

Description	Governmental Activities		Total Change
	2023	2022	2023-2022
Net Position			
Current assets	\$ 46,383,581	\$ 51,669,256	\$ (5,285,675)
Capital assets	40,088,317	36,646,407	3,441,910
Total Assets	<u>86,471,898</u>	<u>88,315,663</u>	<u>(1,843,765)</u>
Deferred charge on refunding	723,856	820,687	(96,831)
Deferred outflows - pensions	3,134,229	2,150,647	983,582
Deferred outflows - OPEB	1,717,790	2,088,544	(370,754)
Total Deferred Outflows of Resources	<u>5,575,875</u>	<u>5,059,878</u>	<u>515,997</u>
Current liabilities	353,823	1,179,352	(825,529)
Long-term liabilities	85,611,069	86,955,408	(1,344,339)
Total Liabilities	<u>85,964,892</u>	<u>88,134,760</u>	<u>(2,169,868)</u>
Deferred inflows - pensions	763,580	3,733,147	(2,969,567)
Deferred inflows - OPEB	6,982,199	5,059,299	1,922,900
Total Deferred Inflows of Resources	<u>7,745,779</u>	<u>8,792,446</u>	<u>(1,046,667)</u>
Net Position:			
Net investment in capital assets	7,343,151	4,552,975	2,790,176
Restricted	3,822,847	3,240,052	582,795
Unrestricted	(12,828,896)	(11,344,692)	(1,484,204)
Total Net Position	<u>\$ (1,662,898)</u>	<u>\$ (3,551,665)</u>	<u>\$ 1,888,767</u>

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2023

Table 2
Changes in Net Position

	Governmental Activities		Total Change
	2023	2022	2023-2022
Revenues			
Program revenues:			
Charges for services	\$ 1,259,560	\$ 1,245,951	\$ 13,609
Operating grants and contributions	10,389,026	10,783,472	(394,446)
General revenues:			
Property taxes	14,722,284	11,391,934	3,330,350
Grants and contributions not restricted	7,567,870	4,831,459	2,736,411
Investment earnings	1,937,056	47,657	1,889,399
Miscellaneous	34,208	1,335,897	(1,301,689)
Total Revenues	<u>35,910,004</u>	<u>29,636,370</u>	<u>6,273,634</u>
Expenses			
Instruction	14,651,723	13,598,660	1,053,063
Instructional resources and media services	230,570	198,210	32,360
Curriculum and staff development	423,570	577,918	(154,348)
Instructional leadership	931,499	531,692	399,807
School leadership	1,786,313	1,512,072	274,241
Guidance, counseling, and evaluation services	1,978,234	1,523,917	454,317
Social work services	87,421	176,855	(89,434)
Health services	617,187	657,846	(40,659)
Student (pupil) transportation	1,291,297	1,107,194	184,103
Food services	1,680,976	1,707,309	(26,333)
Cocurricular/extracurricular activities	1,144,333	1,096,671	47,662
General administration	1,328,502	1,159,411	169,091
Plant maintenance and operations	3,514,647	3,440,458	74,189
Security and monitoring	536,877	319,465	217,412
Data processing services	621,117	639,268	(18,151)
Community services	104,193	76,643	27,550
Interest on long-term debt	2,283,012	586,190	1,696,822
Bond issuance costs	-	434,842	(434,842)
Payments related to shared services arrangements	706,370	847,937	(141,567)
Payments to juvenile justice programs	17,442	31,757	(14,315)
Other intergovernmental charges	85,954	290,526	(204,572)
Total Expenses	<u>34,021,237</u>	<u>30,514,841</u>	<u>3,506,396</u>
Change in Net Position	1,888,767	(878,471)	2,767,238
Beginning net position	(3,551,665)	(2,673,194)	(878,471)
Ending Net Position	<u>\$ (1,662,898)</u>	<u>\$ (3,551,665)</u>	<u>\$ 1,888,767</u>

Total revenues were \$35,910,004, which is an increase of \$6,273,634 from the prior fiscal year. This net increase is mainly due to an increase in property tax revenue from an increase in property values, grants and contributions not restricted mainly due to an increase in foundation revenue, and investment income from an increase in interest received on investments. The decrease in miscellaneous revenues is primarily due to a decrease in reimbursement of local funding for the special education cooperative.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2023

Expenses for governmental activities totaled \$34,021,237 which is an increase of \$3,506,396. This net increase is primarily due to an increase in interest on long-term debt and an increase in expenses within other functions for costs related to special education.

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ended August 31, 2023, the District's governmental funds reported a combined fund balance of \$45,416,741. The combined fund balance decreased by \$4,150,609 from the prior year which was primarily due to a decrease in the capital projects fund due to spending of bond proceeds for capital projects. At the end of the fiscal year, the District's fund balance in the general fund decreased by \$1,377,949 primarily due to less revenues from local funds. The debt service fund balance increased by \$392,562 due to property taxes being more than the debt payments. The capital projects fund balance decreased by \$3,273,441 due to spending on capital projects. The special education program cooperative fund is restricted for spending on the District's shared services education program which had a decrease in fund balance of \$239,815 due to expenditures in excess of revenues.

GENERAL FUND BUDGETARY HIGHLIGHTS

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

During the year ended August 31, 2023, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenditures. The District amended original budgeted revenues by \$41,257, and there was a decrease in amended budgeted expenditures from the original budgeted expenditures of \$628,213 due to less budgeted expenditures for instruction. The general fund's budgeted revenues exceeded actual revenues by \$2,546,935 mainly due to less local funding than expected. Budgeted expenditures exceeded actual expenditures by a net \$499,516 mainly due to lower expenditures than expected for food service and general administration.

CAPITAL ASSETS

Capital assets are generally defined as those items that have useful lives of two years or more and have an initial cost (value if donated) of an amount determined by the Board. Donated capital assets are recorded at acquisition value at the date of donation. During the year, the District used a capitalization threshold of \$5,000, which means that all capital type assets, including library books, with a cost or initial value of less than \$5,000, were not included in the capital assets inventory.

At year end, the District had a total of \$40,088,317 invested in capital assets (net of depreciation) such as land, buildings, and District equipment. This was a net increase of \$3,441,910 compared with the prior year. Major investments in capital assets during the fiscal year were:

- Additions that remained in construction in progress for the career training education center - \$1,327,796
- Baseball and softball field renovations - \$3,054,755
- Renovations to the Hitchcock High School press box - \$294,938

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

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended August 31, 2023

LONG-TERM DEBT

At year end, the District had \$64,264,780 in general obligation bonds, notes, and other payables outstanding versus \$66,433,678 last year for a decrease of \$2,168,898 from repayment of bond principal.

More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The District's budgeted expenditures for the 2023-2024 school year total \$25,552,248, and the District's Board adopted a maintenance and operations tax rate of \$0.6692 and an interest and sinking rate of \$0.4000 for a combined rate of \$1.0692 per \$100 of property valuation.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

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BASIC FINANCIAL STATEMENTS

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HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION - EXHIBIT A-1

August 31, 2023

<u>Data Control Codes</u>		<u>1 Governmental Activities</u>
	<u>Assets</u>	
1110	Cash and cash equivalents	\$ 1,487,397
1120	Investments	40,263,181
1220	Property taxes - delinquent	1,153,500
1230	Allowance for uncollectible taxes	(406,608)
1240	Due from other governments	3,449,189
1267	Due from fiduciary funds	29,954
1290	Other receivables	16,329
1300	Inventories, at cost	44,529
1410	Prepaid items	346,110
		<u>46,383,581</u>
	Capital assets:	
1510	Land	1,641,080
1520	Buildings, net	35,690,091
1530	Furniture and equipment, net	175,664
1540	Vehicles, net	1,013,932
1580	Construction in progress	1,567,550
		<u>40,088,317</u>
1000	Total Assets	<u>86,471,898</u>
	<u>Deferred Outflows of Resources</u>	
1701	Deferred charge on refunding	723,856
1705	Deferred outflows - pensions	3,134,229
1706	Deferred outflows - OPEB	1,717,790
1700	Total Deferred Outflows of Resources	<u>5,575,875</u>
	<u>Liabilities</u>	
2140	Interest payable	133,875
2150	Payroll deductions and withholdings	48,668
2160	Accrued wages payable	149,161
2200	Accrued expenses	22,119
		<u>353,823</u>
	Noncurrent liabilities:	
2501	Long-term liabilities due within one year	2,304,137
2502	Long-term liabilities due in more than one year	71,428,999
2540	Net pension liability	7,666,732
2545	Net OPEB liability	4,211,201
2000	Total Liabilities	<u>85,964,892</u>
	<u>Deferred Inflows of Resources</u>	
2605	Deferred inflows - pensions	763,580
2606	Deferred inflows - OPEB	6,982,199
2600	Total Deferred Inflows of Resources	<u>7,745,779</u>
	<u>Net Position</u>	
3200	Net investment in capital assets	7,343,151
	Restricted for:	
3820	Federal and state programs	1,147,340
3850	Debt service	2,074,189
3890	Other purposes	601,318
3900	Unrestricted	(12,828,896)
3000	Total Net Position	<u>\$ (1,662,898)</u>

See Notes to Financial Statements.

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HITCHCOCK INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES - EXHIBIT B-1

For the Year Ended August 31, 2023

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Position
			3 Charges for Services	4 Operating Grants and Contributions	6 Primary Gov. Governmental Activities
Primary Government					
Governmental Activities					
0011	Instruction	\$ 14,651,723	\$ 416,904	\$ 4,795,723	\$ (9,439,096)
0012	Instructional resources				
0012	and media services	230,570	-	11,746	(218,824)
0013	Curriculum/instructional				
0013	staff development	423,570	-	242,072	(181,498)
0021	Instructional leadership	931,499	585,990	195,011	(150,498)
0023	School leadership	1,786,313	-	404,821	(1,381,492)
0031	Guidance, counseling,				
0031	and evaluation services	1,978,234	143,932	1,462,417	(371,885)
0032	Social work services	87,421	-	86,322	(1,099)
0033	Health services	617,187	5,597	186,599	(424,991)
0034	Student (pupil) transportation	1,291,297	-	141,846	(1,149,451)
0035	Food services	1,680,976	38,452	1,968,025	325,501
0036	Extracurricular activities	1,144,333	34,921	45,931	(1,063,481)
0041	General administration	1,328,502	2,419	76,961	(1,249,122)
0051	Plant maintenance and operations	3,514,647	6,345	311,873	(3,196,429)
0052	Security and monitoring services	536,877	-	59,422	(477,455)
0053	Data processing services	621,117	-	149,642	(471,475)
0061	Community services	104,193	25,000	104,193	25,000
0072	Interest - long-term debt	2,283,012	-	140,800	(2,142,212)
0093	Payments to fiscal agent/member				
0093	districts of SSA	706,370	-	5,622	(700,748)
0095	Payments to juvenile justice	17,442	-	-	(17,442)
0099	Other intergovernmental charges	85,954	-	-	(85,954)
TG	Total Governmental Activities	<u>\$ 34,021,237</u>	<u>\$ 1,259,560</u>	<u>\$ 10,389,026</u>	<u>(22,372,651)</u>
General Revenues					
MT	Property taxes, levied for general purposes				9,913,921
DT	Property taxes, levied for debt service				4,808,363
GC	Grants and contributions not restricted				7,567,870
IE	Investment earnings				1,937,056
MI	Miscellaneous local and intermediate revenue				34,208
TR	Total General Revenues				<u>24,261,418</u>
CN	Change in Net Position				1,888,767
NB	Beginning net position				(3,551,665)
NE	Ending Net Position				<u>\$ (1,662,898)</u>

See Notes to Financial Statements.

HITCHCOCK INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET GOVERNMENTAL FUNDS - EXHIBIT C-1

August 31, 2023

Data Control Codes	10 General	50 Debt Service	60 Capital Projects	OMF Special Education Cooperative
<u>Assets</u>				
1110	\$ 213,041	\$ 235,856	\$ 11,576	\$ 874,411
1120	337,533	1,130,814	38,571,521	64,218
1220	811,565	341,935	-	-
1230	(280,562)	(126,046)	-	-
1240	2,898,271	-	-	128,021
1260	741,179	625,505	1,681,017	-
1267	29,954	-	-	-
1290	16,329	-	-	-
1300	44,529	-	-	-
1410	346,110	-	-	-
1000	Total Assets	Total Assets	Total Assets	Total Assets
	<u>\$ 5,157,949</u>	<u>\$ 2,208,064</u>	<u>\$ 40,264,114</u>	<u>\$ 1,066,650</u>
<u>Liabilities</u>				
2150	\$ 48,668	\$ -	\$ -	\$ -
2160	141,530	-	-	-
2170	3,008,282	-	-	478,699
2200	16,672	-	-	-
2000	Total Liabilities	Total Liabilities	Total Liabilities	Total Liabilities
	<u>3,215,152</u>	<u>-</u>	<u>-</u>	<u>478,699.00</u>
<u>Deferred Inflows of Resources</u>				
2600	531,003	215,889	-	-
2600	<u>531,003</u>	<u>215,889</u>	<u>-</u>	<u>-</u>
<u>Fund Balances</u>				
Nonspendable				
3410	44,529	-	-	-
3430	346,110	-	-	-
Restricted				
3450	-	-	-	-
3470	-	-	40,264,114	-
3480	-	1,992,175	-	-
3490	-	-	-	587,951
3600	1,021,155	-	-	-
3000	Total Fund Balances	Total Fund Balances	Total Fund Balances	Total Fund Balances
	<u>1,411,794</u>	<u>1,992,175</u>	<u>40,264,114</u>	<u>587,951</u>
4000	Total Liabilities, Deferred Inflows of Resources, and Fund Balances	Total Liabilities, Deferred Inflows of Resources, and Fund Balances	Total Liabilities, Deferred Inflows of Resources, and Fund Balances	Total Liabilities, Deferred Inflows of Resources, and Fund Balances
	<u>\$ 5,157,949</u>	<u>\$ 2,208,064</u>	<u>\$ 40,264,114</u>	<u>\$ 1,066,650</u>

See Notes to Financial Statements.

ONMF Other Nonmajor Governmental	98 Total Governmental Funds
\$ 152,513	\$ 1,487,397
159,095	40,263,181
-	1,153,500
-	(406,608)
422,897	3,449,189
701,760	3,749,461
-	29,954
-	16,329
-	44,529
-	346,110
<u>\$ 1,436,265</u>	<u>\$ 50,133,042</u>
\$ -	\$ 48,668
7,631	149,161
262,480	3,749,461
5,447	22,119
<u>275,558</u>	<u>3,969,409</u>
-	746,892
<u>-</u>	<u>746,892</u>
-	44,529
-	346,110
1,147,340	1,147,340
-	40,264,114
-	1,992,175
13,367	601,318
-	1,021,155
<u>1,160,707</u>	<u>45,416,741</u>
<u>\$ 1,436,265</u>	<u>\$ 50,133,042</u>

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HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION - EXHIBIT C-1R
August 31, 2023

Total fund balances for governmental funds \$ 45,416,741

Amounts reported for governmental activities in the Statement of Net Position
are different because:

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

Capital assets - nondepreciable	3,208,630	
Capital assets - depreciable	36,879,687	
	40,088,317	40,088,317

Other long-term assets are not available to pay for current period
expenditures and, therefore, are deferred in the governmental funds. 746,892

Deferred items and some liabilities, including bonds payable, net pension and net other
postemployment benefits (OPEB), are not reported as liabilities or deferred items
in the governmental funds.

Accrued interest	(133,875)	
Deferred outflows - pensions	3,134,229	
Deferred outflows - OPEB	1,717,790	
Deferred charge on refunding	723,856	
Deferred inflows - pensions	(763,580)	
Deferred inflows - OPEB	(6,982,199)	
Noncurrent liabilities due in one year	(2,304,137)	
Noncurrent liabilities due in more than one year	(71,428,999)	
Net pension liability	(7,666,732)	
Net OPEB liability	(4,211,201)	
	(87,914,848)	(87,914,848)

Net Position of Governmental Activities **\$ (1,662,898)**

See Notes to Financial Statements.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS - EXHIBIT C-2
For the Year Ended August 31, 2023

Data Control Codes		10	50	60	OMF Special Education Cooperative
		General	Debt Service	Capital Projects	
Revenues					
5700	Local, intermediate, and out-of-state	\$ 9,929,167	\$ 4,883,307	\$ 1,819,100	\$ 1,144,629
5800	State program revenues	8,633,582	140,800	-	-
5900	Federal program revenues	395,457	-	-	390,076
5020	Total Revenues	<u>18,958,206</u>	<u>5,024,107</u>	<u>1,819,100</u>	<u>1,534,705</u>
Expenditures					
Current:					
0011	Instruction	9,757,094	-	-	496,564
0012	Instructional resources and media services	210,603	-	-	-
0013	Curriculum/instructional staff development	188,943	-	-	-
0021	Instructional leadership	36,549	-	-	726,825
0023	School leadership	1,387,465	-	-	-
0031	Guidance, counseling, and evaluation services	407,157	-	-	178,524
0032	Social work services	1,014	-	-	-
0033	Health services	427,579	-	-	6,942
0034	Student (pupil) transportation	1,100,669	-	-	-
0035	Food services	14,460	-	-	-
0036	Extracurricular activities	1,045,902	-	-	-
0041	General administration	1,209,026	-	-	3,000
0051	Plant maintenance and operations	2,962,768	-	-	7,870
0052	Security and monitoring services	458,580	-	-	-
0053	Data processing services	445,503	-	-	-
0061	Community services	-	-	-	-
Debt service:					
0071	Principal	188,898	1,980,000	-	-
0072	Interest and fees	38,974	2,651,545	-	-
Capital outlay:					
0081	Facilities acquisition and construction	-	-	5,092,541	-
Intergovernmental:					
0093	Payments to member districts of shared service arrangements	351,575	-	-	354,795
0095	Payments to juvenile justice programs	17,442	-	-	-
0099	Other intergovernmental charges	85,954	-	-	-
6030	Total Expenditures	<u>20,336,155</u>	<u>4,631,545</u>	<u>5,092,541</u>	<u>1,774,520</u>
1200	Net Change in Fund Balances	(1,377,949)	392,562	(3,273,441)	(239,815)
0100	Beginning fund balances	2,789,743	1,599,613	43,537,555	827,766
3000	Ending Fund Balances	<u>\$ 1,411,794</u>	<u>\$ 1,992,175</u>	<u>\$ 40,264,114</u>	<u>\$ 587,951</u>

See Notes to Financial Statements.

ONMF Other Nonmajor Governmental	98 Total Governmental Funds
\$ 56,686	\$ 17,832,889
954,368	9,728,750
7,114,255	7,899,788
<u>8,125,309</u>	<u>35,461,427</u>
3,278,424	13,532,082
-	210,603
213,146	402,089
157,845	921,219
252,828	1,640,293
1,332,512	1,918,193
86,322	87,336
137,161	571,682
87,674	1,188,343
1,665,302	1,679,762
1,676	1,047,578
-	1,212,026
289,697	3,260,335
35,053	493,633
135,442	580,945
104,193	104,193
-	2,168,898
-	2,690,519
-	5,092,541
-	706,370
-	17,442
-	85,954
<u>7,777,275</u>	<u>39,612,036</u>
348,034	(4,150,609)
812,673	49,567,350
<u>\$ 1,160,707</u>	<u>\$ 45,416,741</u>

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HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES - EXHIBIT C-3*

For the Year Ended August 31, 2023

Net changes in fund balances - total governmental funds	\$ (4,150,609)
---------------------------------------------------------	----------------

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation	(1,650,631)
Capital outlay, net of disposals	5,092,541

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	(264,235)
------------------------------------------------------------------------------------------------------------------------------------	-----------

The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Additions to accreted interest	(26,034)
Principal repayments	2,168,898
Amortization of premium on bonds	575,674
Amortization of deferred charge on refunding	(96,831)
Accrued interest	(45,302)

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

Change in net pension liability	(4,276,166)
Change in net OPEB liability	2,901,967
Net change in deferred outflows and inflows - pensions	3,953,149
Net change in deferred outflows and inflows - OPEB	(2,293,654)
Net on-behalf contributions adjustment - revenue	712,812
Net on-behalf contributions adjustment - expenses	(712,812)

Some revenues/expenditures reported in governmental funds are not recognized as revenues/expenses in the Statement of Activities.

Fund level on-behalf adjustment - revenues	(956,578)
Fund level on-behalf adjustment - expenditures	956,578

Change in Net Position of Governmental Activities	\$ 1,888,767
----------------------------------------------------------	---------------------

See Notes to Financial Statements.

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HITCHCOCK INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUND - EXHIBIT E-1

August 31, 2023

<u>Data Control Codes</u>		<u>Custodial Fund Student Activity</u>
<u>Assets</u>		
1110	Cash and cash equivalents	\$ 90,254
1000	Total Assets	<u>90,254</u>
 <u>Liabilities</u>		
2170	Due to governmental funds	29,954
2000	Total Liabilities	<u>29,954</u>
 <u>Net Position</u>		
3800	Restricted for individuals and organizations	60,300
3000	Total Net Position	<u><u>\$ 60,300</u></u>

See Notes to Financial Statements.

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HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND - EXHIBIT E-2
For the Year Ended August 31, 2023

	Custodial Fund
	Student Activity
<u>Additions</u>	
Student club fees and dues	\$ 88,115
Student group fundraising activities	67,366
Concession stand sales	31,439
Donations	3,745
Investment earnings	521
Total Additions	191,186
<u>Deductions</u>	
Student activities	239,356
Scholarship awards	3,453
Total Deductions	242,809
Change in Fiduciary Net Position	(51,623)
Beginning net position	111,923
Ending Net Position	\$ 60,300

See Notes to Financial Statements.

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HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
For the Year Ended August 31, 2023

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Hitchcock Independent School District (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas (the “State”). It is governed by a seven-member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB), and it complies with the requirements of the appropriate version of Texas Education Agency’s (TEA) *Financial Accountability System Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

The District is an independent political subdivision of the State governed by a board elected by the public, and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations, and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the District’s financial reporting entity. No other entities have been included in the District’s reporting entity. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

B. Government-Wide Financial Statements

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

C. Basis of Presentation – Government-Wide Financial Statements

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

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

D. Basis of Presentation – Fund Financial Statements

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

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

The District reports the following governmental funds:

General Fund

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

Debt Service Fund

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

Capital Projects Fund

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

Special Revenue Funds

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

Fiduciary Funds

The fiduciary fund accounts for assets held by the District in a trustee capacity or as a custodian on behalf of others. The fiduciary fund is not reflected in the government-wide financial statements because the resources of this fund are not available to support the District's own programs. The District has the following type of fiduciary fund:

Custodial Fund

The custodial fund reports resources, not in a trust, that are held by the District for other parties outside of the District. The custodial fund is accounted for using the accrual basis of accounting. This fund is used to account for the District's student activity funds.

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

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

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

E. Measurement Focus and Basis of Accounting

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

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

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

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

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

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

1. Cash and Cash Equivalents

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

2. Investments

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

The District has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the District is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit and money market accounts
- Government investment pools and commercial paper

3. Inventories and Prepaid Items

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

4. Capital Assets

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

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

Asset Description	Estimated Useful Life
Buildings and improvements	20 to 40 years
Vehicles	10 years
Equipment	8 to 20 years

5. Deferred Outflows/Inflows of Resources

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

Deferred outflows/inflows of resources are amortized as follows:

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

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

6. Receivable and Payables Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

7. Interfund Activity

Interfund activity results from loans, services provided, reimbursements, or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidations. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers in and transfers out are netted and presented as a single “Transfers” line on the government-wide Statement of Activities. Similarly, interfund receivables and payables are netted and presented as a single “Internal Balances” line of the government-wide Statement of Net Position.

8. Long-Term Obligations

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

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

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

9. Leases

The District is a lessee for noncancellable leases of equipment. The District would recognize a lease liability and an intangible, right-to-use lease asset (the “lease asset”) in the government-wide financial statements. The District’s leases to report are immaterial to the financial statements as a whole and are not recognized as a lease liability or a lease asset.

10. Subscription-Based Information Technology Arrangements

The District has noncancellable subscription-based information technology arrangements (SBITAs) to finance the use of information technology software. The District would recognize a liability (the “subscription liability”) and an intangible, right-to-use subscription asset (the “subscription asset”) in the government-wide financial statements. The District’s SBITAs to report are immaterial to the financial statements as a whole and are not recognized as a subscription liability or a subscription asset.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

11. Net Position Flow Assumption

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

12. Fund Balance Flow Assumptions

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

13. Fund Balance Policies

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

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

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

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

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

14. Estimates

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

15. Data Control Codes

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

16. Pensions

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

17. Other Postemployment Benefits

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

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

2. Property Taxes

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

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

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

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

A. Expenditures in Excess of Appropriations

For the year ended August 31, 2023, expenditures exceeded appropriations at the legal level of control for the following expenditures in the general fund.

General fund		
Instructional leadership	\$	8,595
Health services		9,538
Extracurricular activities		47,007

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

At August 31, 2023, the District’s investments are as follows:

Investment Type	Amount	Weighted Average Maturity (Years)
Certificates of deposit	\$ 109,299	0.38
External investment pools:		
Lone Star	565,948	0.12
TexSTAR	23,215	0.11
Texas CLASS	29,019,250	0.19
Texas Range	10,545,469	0.12
Total Value	\$ 40,263,181	
Portfolio weighted average maturity		0.17

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District’s investment policy requires funds on deposit at the depository bank to be collateralized. As of August 31, 2023, checking and time deposits were entirely insured or collateralized with securities as provided by State laws and regulations and FDIC insurance.

Credit risk. The District’s policy requires that investment pools must be rated no lower than ‘AAA’ or ‘AAA-m’. Bankers’ acceptances must be issued in the United States and carry a rating of ‘A1’/‘P1’ as provided by two of the top nationally recognized rating agencies. As of August 31, 2023, the District’s investments in investment pools were rated ‘AAA’ by Standard & Poor’s.

Custodial credit risk – investments. For an investment, this is the risk that the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party in the event of the failure of the counterparty. The District’s investment policy requires that it will seek to safekeep securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, shall be conducted on a delivery versus payment basis or commercial book entry system as utilized by the Federal Reserve and shall be protected through the use of a third-party custody/safekeeping agent.

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

Lone Star

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

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

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

TexSTAR

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

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

Texas CLASS

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

Texas Range

The Texas Range Local Government Investment Pool (Texas Range) was created in 2000 to allow Texas local governments and school districts to pool their funds for investment. Texas Range is directed by an advisory board of experienced local government officials, finance directors, and treasurers and is managed by a team of industry leaders that are focused on providing professional investment services to investors. Texas Range has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256. Finally, Texas Range is rated AAA by Standard & Poor's.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

B. Capital Assets

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

Governmental Activities:	<u>Beginning Balances</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balances</u>
Capital assets not being depreciated:				
Land	\$ 1,641,080	\$ -	\$ -	\$ 1,641,080
Construction in progress	6,321	4,622,305	(3,061,076)	1,567,550
Total capital assets not being depreciated	<u>1,647,401</u>	<u>4,622,305</u>	<u>(3,061,076)</u>	<u>3,208,630</u>
Other capital assets:				
Buildings and improvements	58,528,227	3,531,312	-	62,059,539
Furniture and equipment	1,103,272	-	-	1,103,272
Vehicles	3,205,489	-	-	3,205,489
Total other capital assets	<u>62,836,988</u>	<u>3,531,312</u>	<u>-</u>	<u>66,368,300</u>
Less accumulated depreciation for:				
Buildings and improvements	(24,925,737)	(1,443,711)	-	(26,369,448)
Furniture and equipment	(896,387)	(31,221)	-	(927,608)
Vehicles	(2,015,858)	(175,699)	-	(2,191,557)
Total accumulated depreciation	<u>(27,837,982)</u>	<u>(1,650,631)</u>	<u>-</u>	<u>(29,488,613)</u>
Other capital assets, net	<u>34,999,006</u>	<u>1,880,681</u>	<u>-</u>	<u>36,879,687</u>
Governmental Activities Capital Assets, Net	<u>\$ 36,646,407</u>	<u>\$ 6,502,986</u>	<u>\$ (3,061,076)</u>	<u>40,088,317</u>
			Less associated debt	(73,733,136)
			Plus unspent proceeds	40,264,114
			Plus deferred charge on refunding	723,856
			Net Investment in Capital Assets	<u>\$ 7,343,151</u>

Depreciation was charged to governmental functions as follows:

	<u>Governmental Activities</u>
11 Instruction	\$ 851,377
12 Instructional resources and media services	17,103
13 Curriculum and instructional staff development	14,427
21 Instructional leadership	1,217
23 School leadership	108,955
31 Guidance, counseling, and evaluation services	28,361
32 Social work services	85
33 Health services	33,448
34 Student (pupil) transportation	89,743
35 Food service	1,214
36 Cocurricular/extracurricular activities	85,554
41 General administration	97,708
51 Plant maintenance and operations	247,429
52 Security and monitoring	37,301
53 Data processing services	36,709
Total Depreciation Expense	<u>\$ 1,650,631</u>

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

C. Long-Term Liabilities

The following is a summary of changes in the District's total governmental long-term liabilities for the year. In general, the District uses the general and debt service funds to liquidate governmental long-term liabilities.

Governmental Activities:	Original Issue	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Bonds payables:						
Series 2014 - 3.00%	\$ 8,660,000	\$ 465,000	\$ -	\$ (145,000)	\$ 320,000	\$ 155,000
Series 2015 - 2.00% to 4.00%	8,830,000	7,300,000	-	(855,000)	6,445,000	885,000
Series 2016 - 3.00% to 5.00%	1,635,000	1,065,000	-	(105,000)	960,000	110,000
Series 2018 - 3.00% to 5.00%	3,830,000	1,585,000	-	(100,000)	1,485,000	105,000
Series 2021A - 3.00%	4,460,000	4,420,000	-	(45,000)	4,375,000	35,000
Series 2021B - 2.024% to 4.000%	6,830,000	6,730,000	-	-	6,730,000	-
Series 2022 - 5.00%	41,365,000	41,365,000	-	(205,000)	41,160,000	295,000
Direct borrowing/private placement:						
Building improvement						
loan 2014 - 2.80%	2,775,014	1,438,678	-	(188,898)	1,249,780	194,137
Series 2010 - 3.85%	500,000	125,000	-	(40,000)	85,000	40,000
Series 2011Q - 5.33%	5,400,000	1,940,000	-	(485,000)	1,455,000	485,000
	<u>84,285,014</u>	<u>66,433,678</u>	<u>-</u>	<u>(2,168,898)</u>	<u>64,264,780</u>	<u>* 2,304,137</u>
Other liabilities:						
Accreted interest	-	3,119,536	26,034	-	3,145,570	*
Net pension liability	-	3,390,566	4,276,166	-	7,666,732	-
Net OPEB liability	-	7,113,168	-	(2,901,967)	4,211,201	-
Unamortized premium	-	6,898,460	-	(575,674)	6,322,786	*
	<u>-</u>	<u>20,521,730</u>	<u>4,302,200</u>	<u>(3,477,641)</u>	<u>21,346,289</u>	<u>-</u>
Total Governmental Activities	<u>\$ 84,285,014</u>	<u>\$ 86,955,408</u>	<u>\$ 4,302,200</u>	<u>\$ (2,744,572)</u>	<u>\$ 85,611,069</u>	<u>\$ 2,304,137</u>
					<u>\$ 83,306,932</u>	
					<u>\$ 73,733,136</u>	

Long-term liabilities applicable to the District's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

Bonded indebtedness of the District reflected in the general long-term debt and current requirements for principal and interest expenditures are accounted for in the debt service fund for all bonds including general obligation bonds and private placement bonds from direct borrowing. The interest expense paid on general obligations bonds was \$2,551,288 and for private placement bonds was \$94,518 for fiscal year 2023.

The District also has private placement loans from direct borrowing for building improvements reflected in the general long-term debt, and current requirements for principal and interest expenditures are accounted for in the general fund. The interest expense paid on private placement loans was \$38,974 for fiscal year 2023.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

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

Fiscal Year Ended August 31	General Obligation Bonds		
	Principal	Interest	Total Requirements
2024	\$ 1,585,000	\$ 2,556,825	\$ 4,141,825
2025	1,745,000	2,493,575	4,238,575
2026	1,135,000	3,156,575	4,291,575
2027	1,980,000	2,807,200	4,787,200
2028	2,030,000	2,752,650	4,782,650
2029-2033	12,405,000	11,562,989	23,967,989
2034-2038	13,600,000	7,084,523	20,684,523
2039-2043	12,130,000	4,274,125	16,404,125
2044-2048	14,865,000	1,534,100	16,399,100
Total	\$ 61,475,000	\$ 38,222,562	\$ 99,697,562

Fiscal Year Ended August 31	Private Placement Loan		
	Principal	Interest	Total Requirements
2024	\$ 194,137	\$ 33,737	\$ 227,874
2025	199,698	28,174	227,872
2026	205,329	22,543	227,872
2027	211,118	16,754	227,872
2028	217,046	10,827	227,873
2029	222,452	4,682	227,134
Total	\$ 1,249,780	\$ 116,717	\$ 1,366,497

Fiscal Year Ended August 31	Private Placement Bonds		
	Principal	Interest	Total Requirements
2024	\$ 525,000	\$ 67,129	\$ 592,129
2025	530,000	39,642	569,642
2026	485,000	12,925	497,925
Total	\$ 1,540,000	\$ 119,696	\$ 1,659,696

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

	Governmental Activities
Assets:	
Building improvements	\$ 2,775,014
Less: Accumulated depreciation	(693,754)
	<u>\$ 2,081,260</u>

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

D. Interfund Transactions

The interfund balances were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental fund	\$ 262,480
General fund	Special education cooperative fund	478,699
Debt service fund	General fund	625,505
Capital project fund	General fund	1,681,017
Nonmajor governmental fund	General fund	701,760
	Total	<u><u>\$ 3,749,461</u></u>

Amounts recorded as due to/from are considered to be temporary loans and will be repaid during the following year.

IV. OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District purchases commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or not performed correctly, it could result in a substantial liability to the District. The District has engaged an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

C. Defined Benefit Pension Plan

Teacher Retirement System

Plan Description

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

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

Pension Plan Fiduciary Net Position

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

Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in the State. The pension formula is calculated using 2.3% (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic postemployment benefit changes, including automatic cost-of-living adjustments (COLAs). Ad hoc postemployment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature as noted in the Plan Description above.

Texas Government Code section 821.006 prohibits benefit improvements, if, as a result of the particular action, the time required to amortize TRS unfunded actuarial liabilities would be increased to a period that exceeds 31 years or, if the amortization period already exceeds 31 years, the period would be increased by such action. Actuarial implications of the funding provided in the manner are determined by TRS's actuary.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas Legislature to establish a member contribution rate of not less than 6% of the member’s annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of TRS during the fiscal year.

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 12 of the 86th Texas Legislature amended Texas Government Code 825.402 for member contributions and increased employee and employer contribution rates for fiscal years 2020 through 2025.

Contribution Rates			
Fiscal Year	Public Education		Active
	State	Employer	Employee
2022	7.75%	1.70%	8.00%
2023	8.00%	1.80%	8.00%
2024	8.25%	1.90%	8.25%
2025	8.25%	2.00%	8.25%

Note: SB12 of the 86th Texas Legislature establishes contribution rates through fiscal year 2025. Additional rate changes will require Texas Legislative action.

	Measurement	Fiscal
	Year 2022	Year 2023
Employer contribution	\$ 602,607	\$ 634,778
Member contribution	\$ 1,210,806	\$ 1,244,911
NECE on-behalf contribution	\$ 773,275	\$ 834,866

	Contribution Rates	
	2022	2023
Member	8.00%	8.00%
NECE (State)	7.75%	8.00%
Employers	7.75%	7.75%

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

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INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any or all of an employee's salary is paid by federal funding sources, a privately sponsored source, or from noneducational and general or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to TRS an amount equal to 50% of the state contribution rate for certain instructional or administrative employees and 100% of the state contribution rate for all other employees.

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

- All public schools, charter schools, and regional educational service centers must contribute 1.7% of the member's salary beginning in fiscal year 2022, gradually increasing to 2.0% in fiscal year 2025.
- When employing a retiree of TRS, the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

Actuarial Assumptions

The total pension liability (TPL) in the August 31, 2022 actuarial valuation was determined using the following actuarial assumptions:

Valuation date	August 31, 2021 rolled forward to August 31, 2022
Actuarial cost method	Individual entry age normal
Asset valuation method	Fair Value
Single discount rate	7.00%
Long-term expected investment rate of return	7.00%
Municipal bond rate as of August 2020	3.91% - The source for the rate is the Fixed Income Market Data/Yield Curve/Data Municipal Bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index's "20-Year Municipal GO AA Index"
Inflation	2.30%
Salary increases including inflation	2.95% to 8.95%, including inflation
Benefit changes during the year	None
Ad hoc postemployment benefit changes	None

The actuarial methods and assumptions used in the determination of the TPL are the same assumptions used in the actuarial valuation as of August 31, 2021. For a full description of these assumptions please see the TRS actuarial valuation report dated November 12, 2021.

Discount Rate

A single discount rate of 7.00% was used to measure the TPL. The single discount rate was based on the expected rate of return on plan investments of 7.00%. The projection of cash flows used to determine this single discount rate assumed that contributions from active members, employers, and the NECE will be made at the rates set by the Legislature during the 2019 session. It is assumed that future employer and state contributions will be 8.50% of payroll in fiscal year 2020 gradually increasing to 9.55% of payroll over the next several years. This includes all employer and state contributions for active and rehired retirees.

Based on those assumptions, the TRS's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on TRS investments was applied to all periods of projected benefit payments to determine the TPL.

The long-term rate of return on pension plan investments is 7.00%. The long-term expected rate of return on TRS investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

Best estimates of geometric real rates of return for each major asset class included in TRS's target asset allocation as of August 31, 2022 are summarized below:

Teacher Retirement System of Texas
Asset Allocation and Long-Term Expected Real Rate of Return
As of August 31, 2022

Asset Class	Target Allocation (1)	Long-Term Expected Geometric Real Rate Return (2)	Long-Term Expected Portfolio Real Rate of Return
Global Equity			
U.S.	18.00%	4.60%	1.12%
Non-U.S. Developed	13.00%	4.90%	0.90%
Emerging Markets	9.00%	5.40%	0.75%
Private Equity*	14.00%	7.70%	1.55%
Stable Value			
Government Bonds	16.00%	1.00%	0.22%
Absolute Return	0.00%	3.70%	0.00%
Stable Value Hedge Funds	5.00%	3.40%	0.18%
Real Return			
Real Estate	15.00%	4.10%	0.94%
Energy, Natural Resources, and Infrastructure	6.00%	5.10%	0.37%
Commodities	0.00%	3.60%	0.00%
Risk Parity			
Risk Parity	8.00%	4.60%	0.43%
Leverage			
Cash	2.00%	3.00%	0.01%
Asset Allocation Leverage	-6.00%	3.60%	-0.05%
Inflation Expectation			2.70%
Volatility Drag(3)			-0.91%
Total	<u>100.00%</u>	<u>54.70%</u>	<u>8.21%</u>

* Absolute Return includes Credit Sensitive Investments.

(1) Target allocations are based on the FY2022 policy model.

(2) Capital Market Assumptions come from Aon Hewitt (as of 08/31/2022).

(3) The volatility drag results from the conversion between arithmetic and geometric mean returns.

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INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

Discount Rate Sensitivity Analysis

The following table presents the net pension liability (NPL) of TRS using the discount rate of 7%, and what the NPL would be if it was calculated using a discount rate that is 1% point lower (6%) or 1% point higher (8%) than the current rate:

	1% Decrease in Discount Rate (6%)	Discount Rate (7%)	1% Increase in Discount Rate (8%)
District's proportionate share of the net pension liability	\$ 11,926,528	\$ 7,666,732	\$ 4,213,967

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

At the fiscal year ended August 31, 2023, the District reported a liability of \$7,666,732 for its proportionate share of the TRS NPL. This liability reflects a reduction for state pension support provided to the District. The amounts recognized by the District as its proportionate share of the NPL, the related state support, and the total portion of the NPL that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 7,666,732
State's proportionate share that is associated with the District	9,838,075
Total	\$ 17,504,807

The NPL was measured as of August 31, 2021 and rolled forward to August 31, 2022, and the TPL used to calculate the NPL was determined by an actuarial valuation as of that date. The District's proportion of the NPL was based on the District's contributions to TRS relative to the contributions of all employers to TRS for the period September 1, 2021 through August 31, 2022.

At the measurement year ended August 31, 2022, the employer's proportion of the collective NPL was 0.0129140%, which was a decrease of 0.0003998% from its proportion measured as of August 31, 2021.

Changes Since the Prior Actuarial Valuation

The actuarial assumptions and methods have been modified since the determination of the prior year's NPL. These new assumptions were adopted in conjunction with an actuarial experience study. The primary assumption change was the lowering of the single discount rate from 7.25% to 7.00%.

For the measurement year ended August 31, 2022, the District recognized pension expense of \$940,408 and revenue of \$940,408 for support provided by the State.

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INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

At the measurement year ended August 31, 2022, the District reported its proportionate share of TRS deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 111,167	\$ 167,149
Changes in actuarial assumptions	1,428,562	356,037
Difference between projected and actual investment earnings	757,449	-
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	202,273	240,394
Contributions paid to TRS subsequent to the measurement date	634,778	-
Total	\$ 3,134,229	\$ 763,580

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

Fiscal Year Ended August 31	Pension Expense
2024	\$ 511,194
2025	248,342
2026	24,842
2027	850,996
2028	100,497
Thereafter	-
Total	\$ 1,735,871

D. Defined Other Postemployment Benefit Plan

Plan Description

The District participates in TRS-Care. It is a multiple-employer, cost-sharing defined OPEB plan with a special funding situation. TRS-Care was established in 1986 by the Texas Legislature.

The TRS Board of Trustees (the "Board") administers the TRS-Care program and the related fund in accordance with Texas Insurance Code Chapter 1575. The Board is granted the authority to establish basic and optional group insurance coverage for participants, as well as to amend benefit terms as needed under Chapter 1575.052. The Board may adopt rules, plans, procedures, and orders reasonably necessary to administer the program, including minimum benefits and financing standards.

OPEB Plan Fiduciary Net Position

Detailed information about the TRS-Care fiduciary net position is available in a separately issued TRS Annual Comprehensive Financial Report that includes financial statements and Required Supplementary Information. That report may be obtained on the Internet at http://www.trs.texas.gov/Pages/about_publications.aspx; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512)542-6592.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

Components of the net OPEB liability of TRS-Care as of August 31, 2022 are as follows:

Total OPEB liability		\$ 27,061,942,520
Less: plan fiduciary net position		<u>(3,117,937,218)</u>
	Net OPEB Liability	<u>\$ 23,944,005,302</u>
Net position as a percentage of total OPEB liability		11.52%

Benefits Provided

TRS-Care provides health insurance coverage to retirees from public and charter schools, regional education service centers, and other educational districts who are members of TRS. Optional dependent coverage is available for an additional fee.

Eligible non-Medicare retirees and their dependents may enroll in TRS-Care Standard, a high-deductible health plan. Eligible Medicare retirees and their dependents may enroll in the TRS-Care Medicare Advantage medical plan and the TRS-Care Medicare Rx prescription drug plan. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in TRS. There are no automatic postemployment benefit changes, including automatic COLAs.

The premium rates for retirees are reflected in the following table:

TRS-Care Monthly Premium Rates			
		Medicare	Non-Medicare
Retiree*	\$	135	\$ 200
Retiree and spouse	\$	529	\$ 689
Retiree* and children	\$	468	\$ 408
Retiree and family	\$	1,020	\$ 999
<i>*or surviving spouse</i>			

Contributions

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

Texas Insurance Code, section 1575.202 establishes the State’s contribution rate which is 1.25% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is 0.65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25% or not more than 0.75% of the salary of each active employee of the public or charter school. The actual employer contribution rate is prescribed by the Legislature in the GAA.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

The following table shows contributions to TRS-Care by type of contributor:

	Contribution Rates	
	Fiscal Year	
	2022	2023
Active employee	0.65%	0.65%
NECE (State)	1.25%	1.25%
Employers	0.75%	0.75%
Federal/private funding remitted by employers	1.25%	1.25%

	Measurement Year (2022)	Fiscal Year (2023)
Employer contributions	\$ 144,455	\$ 140,859
Member contributions	\$ 46,313	\$ 50,574
NECE on-behalf contributions	\$ 176,212	\$ 194,517

In addition to the employer contributions listed above, there is an additional surcharge to which all TRS employers are subject (regardless of whether they participate in TRS-Care). When hiring a TRS retiree, employers are required to pay TRS-Care a monthly surcharge of \$535 per retiree.

TRS-Care received supplemental appropriations from the State as the NECE in the amount of \$83 million in fiscal year 2022 from the Federal Rescue Plan Act to help defray COVID-19-related healthcare costs during fiscal year 2022.

Actuarial Assumptions

The actuarial valuation was performed as of August 31, 2021. Update procedures were used to roll forward the total OPEB liability to August 31, 2022.

The actuarial valuation of the OPEB plan offered through TRS-Care is similar to the actuarial valuation performed for the TRS pension plan, except that the OPEB valuation is more complex. The demographic assumptions were developed in the experience study performed for TRS for the period ending August 31, 2017. The following assumptions and other inputs used for members of TRS-Care are based on an established pattern of practice and are identical to the assumptions used in the August 31, 2021 TRS pension actuarial valuation that was rolled forward to August 31, 2022:

- | | |
|-------------------------|------------------------|
| 1. Rates of Mortality | 4. Rates of Disability |
| 2. Rates of Retirement | 5. General Inflation |
| 3. Rates of Termination | 6. Wage Inflation |

The active mortality rates were based on 90% of the RP-2014 Employee Mortality Tables for males and females. The post-retirement mortality rates for healthy lives were based on the 2018 TRS of Texas Healthy Pensioner Mortality Tables, with full generational projection using the ultimate improvement rates from the mortality projection scale MP-2018.

Additional actuarial methods and assumptions are as follows:

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INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

Valuation date	August 31, 2021 rolled forward to August 31, 2022
Actuarial cost method	Individual entry age normal
Inflation	2.30%
Single discount rate	3.91% as of August 31, 2022
Aging factors	Based on plan-specific experience
Expenses	Third-party administrative expenses related to the delivery of healthcare benefits are included in the age-adjusted claims costs.
Projected salary increases	3.05% to 9.05%, including inflation
Healthcare trend rates	Medical trend rates: 8.25% (Medicare retirees) and 7.25% (non-Medicare retirees) Prescription drug trend rate: 8.25%
Election rates	Normal retirement: 65% participant prior to age 65 and 40% participant after age 65. 25% of pre-65 retirees are assumed to discontinue coverage at age 65.
Ad hoc postemployment benefit changes	None

Discount Rate

A single discount rate of 3.91% was used to measure the total OPEB liability. There was an increase of 1.96% in the discount rate since the previous year. Because TRS-Care is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active members and those of the contributing employers and the NECE are made at the statutorily required rates. Based on those assumptions, TRS-Care’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was used for the long-term rate of return and was applied to all periods of projected benefit payments to determine the total OPEB liability.

The source of the municipal bond rate is the Fidelity “20-year Municipal GO AA Index” as of August 31, 2021 using the Fixed Income Market Data/Yield Curve Data Municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds.

Sensitivity of the Net OPEB Liability

Discount Rate Sensitivity Analysis – The following schedule shows the impact of the net OPEB liability if the discount rate used was 1 percentage point lower than and 1 percentage point higher than the discount rate that was used (3.91%) in measuring the net OPEB liability:

	<u>1% Decrease in Discount Rate (2.91%)</u>	<u>Current Single Discount Rate (3.91%)</u>	<u>1% Increase in Discount Rate (4.91%)</u>
District's proportionate share of net OPEB liability	\$ 4,965,340	\$ 4,211,201	\$ 3,600,252

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

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

	1% Decrease in Healthcare Cost Trend Rate	Current Healthcare Cost Trend Rate	1% Increase in Healthcare Cost Trend Rate
District's proportionate share of net OPEB liability	\$ 3,470,049	\$ 4,211,201	\$ 5,172,010

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

At August 31, 2023, the District reported a liability of \$4,11,201 for its proportionate share of TRS-Care's net OPEB liability. This liability reflects a reduction for state OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related state support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 4,211,201
State's proportionate share that is associated with the District	5,137,004
Total	\$ 9,348,205

The net OPEB liability was measured as of August 31, 2021 and rolled forward to August 31, 2022, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on the District's contributions to TRS-Care relative to the contributions of all employers to TRS-Care for the period September 1, 2021 through August 31, 2022.

At August 31, 2023, the District's proportion of the collective net OPEB liability was 0.0175877%, compared to 0.0184401% as of August 31, 2022.

Changes Since the Prior Actuarial Valuation

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

- The discount rate changed from 1.95% as of August 31, 2021 to 3.91% as of August 31, 2022. This change decreased the total OPEB liability.

There were no changes in benefit terms since the prior measurement date.

The amount of OPEB expense recognized by the District in the reporting period was \$467,454.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

At August 31, 2023, the District reported its proportionate share of TRS-Care’s deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 234,128	\$ 3,508,308
Changes in actuarial assumptions	641,449	2,925,692
Differences between projected and actual investment earnings	12,545	-
Changes in proportion and difference between the District's contributions and the proportionate share of contributions	688,809	548,199
Contributions paid to TRS subsequent to the measurement date	140,859	-
Total	\$ 1,717,790	\$ 6,982,199

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

Fiscal Year Ended August 31	OPEB Expense
2024	\$ (947,194)
2025	(947,154)
2026	(768,571)
2027	(526,799)
2028	(682,585)
Thereafter	(1,532,965)
	\$ (5,405,268)

For the year ended August 31, 2023, the District recognized OPEB expense of \$728,982 and revenue of \$728,982 for support provided by the State.

Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for TRS-Care to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2023, 2022, and 2021, the subsidy payments received by TRS-Care on behalf of the District were \$83,706, \$64,123, and \$64,593, respectively.

E. Employee Health Care Coverage

During the year ended August 31, 2023, employees of the District were covered by a health insurance plan (the “Plan”). The District paid premiums of \$275 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

and the insurer is renewable September 1, 2023 and terms of coverage and premiums costs are included in the contractual provisions.

F. Workers' Compensation Insurance

During the year ended August 31, 2023, the District met its statutory workers' compensation obligations through participation in the Deep East Texas Self-Insurance Fund (the "Fund"). The District purchased workers' compensation coverage through the Fund, a public entity risk pool, which is self-sustained through member contributions. The Fund reinsured to statutory limits through commercial companies for claims in excess of \$850,000 for the 2022-2023 fiscal year. The Fund contracts with independent actuaries to determine the adequacy of reserves and fully funds those reserves.

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

G. Unemployment Compensation

During the year ended August 31, 2023, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the unemployment compensation pool. For the year ended August 31, 2023, the Fund anticipates that the District has no additional liability beyond the contractual obligation for payment of contribution.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2022 are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

H. Auto, Liability, and Property Programs

During the year ended August 31, 2023, the District participated in the following TASB Risk Management Fund (the "Fund") programs.

Auto Liability
Auto Physical Damage
Privacy and Information Security
Property
School Liability

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended August 31, 2023

The Fund was created and is operated under the provision of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability and Property programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2023, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund’s Board of Trustees in February of the following year. The Fund’s audited financial statements as of August 31, 2022, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

I. Shared Services Arrangements

The District is the fiscal agent in a shared services arrangement (SSA) for the Individuals with Disabilities Education (IDEA), Part B grant. The objective of IDEA, Part B is to provide grants to assist in providing a free appropriate public education to all children with disabilities. All services are provided by the fiscal agent. The member districts provide funds to the fiscal agent.

The member districts and current expenditures of the SSA are summarized below:

<u>Member Districts</u>	<u>Expenditures</u>
Hitchcock ISD	\$ 419,989
Damon ISD	112,492
Danbury ISD	170,392
Needville ISD	716,852
	<u>\$ 1,419,725</u>

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REQUIRED SUPPLEMENTARY INFORMATION

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HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET TO ACTUAL - GENERAL FUND - EXHIBIT G-1
For the Year Ended August 31, 2023

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
Revenues					
5700	Local and intermediate sources	\$ 12,797,209	\$ 12,980,564	\$ 9,929,167	\$ (3,051,397)
5800	State program revenues	8,026,675	7,539,111	8,633,582	1,094,471
5900	Federal program revenues	640,000	985,466	395,457	(590,009)
5020	Total Revenues	<u>21,463,884</u>	<u>21,505,141</u>	<u>18,958,206</u>	<u>(2,546,935)</u>
Expenditures					
Current:					
0011	Instruction	10,787,045	9,783,795	9,757,094	26,701
0012	Instructional resources and media services	207,002	214,121	210,603	3,518
0013	Curriculum and instructional staff development	296,255	200,720	188,943	11,777
0021	Instructional leadership	6,000	27,954	36,549	(8,595) *
0023	School leadership	1,283,729	1,392,922	1,387,465	5,457
0031	Guidance, counseling, and evaluation services	399,837	462,172	407,157	55,015
0032	Social work services	5,300	1,016	1,014	2
0033	Health services	388,705	418,041	427,579	(9,538) *
0034	Student (pupil) transportation	1,137,479	1,154,026	1,100,669	53,357
0035	Food services	15,000	145,000	14,460	130,540
0036	Extracurricular activities	971,405	998,895	1,045,902	(47,007) *
0041	General administration	1,399,596	1,317,544	1,209,026	108,518
0051	Plant maintenance and operations	2,979,377	3,008,478	2,962,768	45,710
0052	Security and monitoring services	494,135	530,685	458,580	72,105
0053	Data processing services	406,866	497,458	445,503	51,955
0061	Community services	800	-	-	-
Debt service:					
0071	Principal	189,226	188,898	188,898	-
0072	Interest and fiscal charges	38,974	38,974	38,974	-
Intergovernmental:					
0093	Payments to member districts of shared services arrangements	325,000	351,576	351,575	1
0095	Juvenile justice programs	45,000	17,442	17,442	-
0099	Other intergovernmental charges	87,153	85,954	85,954	-
6030	Total Expenditures	<u>21,463,884</u>	<u>20,835,671</u>	<u>20,336,155</u>	<u>499,516</u>
1200	Net Change in Fund Balance	<u>\$ -</u>	<u>\$ 669,470</u>	<u>(1,377,949)</u>	<u>\$ (2,047,419)</u>
0100	Beginning fund balance			<u>2,789,743</u>	
3000	Ending Fund Balance			<u>\$ 1,411,794</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
- 2.* Expenditures exceeded appropriations at the legal level of control.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS (TRS) - EXHIBIT G-2
For the Year Ended August 31, 2023

	Measurement Year*			
	2022	2021	2020	2019
District's proportion of the net pension liability (asset)	0.0129140%	0.0133138%	0.0130802%	0.0134562%
District's proportionate share of the net pension liability (asset)	\$ 7,666,732	\$ 3,390,566	\$ 7,005,467	\$ 6,994,950
State's proportionate share of the net pension liability (asset) associated with the District	9,838,075	4,254,600	9,012,106	8,285,579
Total	<u>\$ 17,504,807</u>	<u>\$ 7,645,166</u>	<u>\$ 16,017,573</u>	<u>\$ 15,280,529</u>
District's covered payroll**	\$ 15,135,070	\$ 14,434,665	\$ 14,036,182	\$ 12,825,518
District's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	50.66%	23.49%	49.91%	54.54%
Plan fiduciary net position as a percentage of the total pension liability	75.62%	88.79%	75.54%	75.24%

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

** As of the measurement date.

Notes to Required Supplementary Information:

1. *Changes in Assumptions:* The discount rate changed from 7.25% as of August 31, 2021 to 7.00% as of August 31, 2022.

2. *Changes in Benefits:* There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

Measurement Year*

<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
0.0135431%	0.0121421%	0.0119748%	0.0113482%	0.0075094%
\$ 7,454,438	\$ 3,882,397	\$ 4,525,090	\$ 4,011,438	\$ 2,005,864
<u>8,989,964</u>	<u>4,843,116</u>	<u>5,528,933</u>	<u>5,279,053</u>	<u>4,523,365</u>
<u>\$ 16,444,402</u>	<u>\$ 8,725,513</u>	<u>\$ 10,054,023</u>	<u>\$ 9,290,491</u>	<u>\$ 6,529,229</u>
\$ 12,569,413	\$ 11,026,005	\$ 10,302,269	\$ 9,901,585	\$ 8,913,419
59.31%	35.21%	43.92%	40.51%	22.50%
73.74%	82.17%	78.00%	78.43%	83.25%

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS (TRS) - EXHIBIT G-3
For the Year Ended August 31, 2023

	Fiscal Year			
	2023	2022	2021	2020
Contractually required contribution	\$ 634,778	\$ 601,923	\$ 568,179	\$ 540,520
Contributions in relation to the contractually required contribution	<u>634,778</u>	<u>601,923</u>	<u>568,179</u>	<u>540,520</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 15,561,382	\$ 15,135,070	\$ 14,434,665	\$ 14,036,182
Contributions as a percentage of covered payroll	4.08%	3.98%	3.94%	3.85%

Fiscal Year

<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
\$ 468,068	\$ 455,462	\$ 395,421	\$ 376,090	\$ 319,786	\$ 190,383
<u>468,068</u>	<u>455,462</u>	<u>395,421</u>	<u>376,090</u>	<u>319,786</u>	<u>190,383</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
\$ 12,825,518	\$ 12,569,413	\$ 11,026,005	\$ 10,302,269	\$ 9,901,585	\$ 8,913,419
3.65%	3.62%	3.59%	3.65%	3.23%	2.14%

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET OPEB LIABILITY
TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES
GROUP INSURANCE PROGRAM (TRS-CARE) - EXHIBIT G-4

For the Year Ended August 31, 2023

	Measurement Year*			
	2022	2021	2020	2019
District's proportion of the collective net OPEB liability (asset)	0.0175877%	0.0184401%	0.0184865%	0.0186623%
District's proportionate share of the collective net OPEB liability (asset) associated with the District	\$ 4,211,201	\$ 7,113,168	\$ 7,027,538	\$ 8,825,655
State's proportionate share of the collective net OPEB liability (asset) associated with the District	5,137,004	9,530,059	9,443,326	11,727,318
Total	<u>\$ 9,348,205</u>	<u>\$ 16,643,227</u>	<u>\$ 16,470,864</u>	<u>\$ 20,552,973</u>
District's covered payroll**	\$ 15,135,070	\$ 14,434,665	\$ 14,036,182	\$ 12,825,518
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered payroll	27.82%	49.28%	50.07%	68.81%
Plan fiduciary net position as a percentage of the total OPEB liability	11.52%	6.18%	4.99%	2.66%

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

** As of measurement date

Notes to Required Supplementary Information:

1. Changes in Assumptions:

The discount rate was changed from 1.95% as of August 31, 2021 to 3.91% as of August 31, 2022. This change decreased the total OPEB liability.

2. Changes in Benefits:

There were no changes in benefits terms since the prior measurement period.

Measurement Year*	
2018	2017
0.0176538%	0.0164225%
\$ 8,814,705	\$ 7,141,549
9,513,840	7,559,240
<u>\$ 18,328,545</u>	<u>\$ 14,700,789</u>
\$ 12,569,413	\$ 11,026,005
70.13%	64.77%
1.57%	0.91%

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEXAS PUBLIC SCHOOL RETIRED EMPLOYEES
GROUP INSURANCE PROGRAM (TRS-CARE) - EXHIBIT G-5
For the Year Ended August 31, 2023

	Fiscal Year*			
	2023	2022	2021	2020
Statutorily required contributions	\$ 140,859	\$ 144,455	\$ 144,063	\$ 140,583
Contributions in relation to the statutorily required contributions	140,859	144,455	144,063	140,583
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered payroll	\$ 15,561,382	\$ 15,135,070	\$ 14,434,665	\$ 14,036,182
Contributions as a percentage of covered payroll	0.91%	0.95%	1.00%	1.00%

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

Fiscal Year*	
2019	2018
\$ 131,456	\$ 120,230
131,456	120,230
<u>\$ -</u>	<u>\$ -</u>
\$ 12,825,518	\$ 12,569,413
1.02%	0.96%

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***OTHER SUPPLEMENTARY
INFORMATION***

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-1 (Page 1 of 3)
August 31, 2023

Data Control Codes	205	206	211	240
	Head Start	ESEA Title X Part C	ESEA Title I Part A	National School Breakfast and Lunch Program
<u>Assets</u>				
1110	\$ 10,924	\$ -	\$ -	\$ 128,580
1120	-	-	-	159,095
1240	10,144	1,882	54,744	158,263
1260	-	-	-	701,402
1000	Total Assets	Total Assets	Total Assets	Total Assets
	<u>\$ 21,068</u>	<u>\$ 1,882</u>	<u>\$ 54,744</u>	<u>\$ 1,147,340</u>
<u>Liabilities</u>				
2160	\$ -	\$ -	\$ 7,132	\$ -
2170	21,068	1,882	44,008	-
2200	-	-	3,604	-
2000	Total Liabilities	Total Liabilities	Total Liabilities	Total Liabilities
	<u>21,068</u>	<u>1,882</u>	<u>54,744</u>	<u>-</u>
<u>Fund Balances</u>				
Restricted:				
3450	-	-	-	1,147,340
3490	-	-	-	-
3000	Total Fund Balances	Total Fund Balances	Total Fund Balances	Total Fund Balances
	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,147,340</u>
4000	Total Liabilities and Fund Balances	Total Liabilities and Fund Balances	Total Liabilities and Fund Balances	Total Liabilities and Fund Balances
	<u>\$ 21,068</u>	<u>\$ 1,882</u>	<u>\$ 54,744</u>	<u>\$ 1,147,340</u>

244	255	263	278	279	280
Career and Technical Basic Grant	Title II Part A	Title III Part A	ESSER - Homeless Children and Youth	ESSER III TCLAS	ARP Homeless II
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
924	2,980	330	240	-	-
-	-	-	-	-	-
<u>\$ 924</u>	<u>\$ 2,980</u>	<u>\$ 330</u>	<u>\$ 240</u>	<u>\$ -</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
924	2,980	330	240	-	-
-	-	-	-	-	-
<u>924</u>	<u>2,980</u>	<u>330</u>	<u>240</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 924</u>	<u>\$ 2,980</u>	<u>\$ 330</u>	<u>\$ 240</u>	<u>\$ -</u>	<u>\$ -</u>

HITCHCOCK INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-1 (Page 2 of 3)

August 31, 2023

Data Control Codes	281	282	289	313
ESSER II	ESSER III	Teacher Incentive	SSA IDEA - Part B Formula	
<u>Assets</u>				
1110	\$ -	\$ -	\$ -	\$ -
1120	-	-	-	-
1240	27,087	40,195	-	69,375
1260	-	-	-	-
1000	\$ 27,087	\$ 40,195	\$ -	\$ 69,375
<u>Liabilities</u>				
2160	\$ -	\$ -	\$ -	\$ 499
2170	27,087	40,195	-	67,033
2200	-	-	-	1,843
2000	27,087	40,195	-	69,375
<u>Fund Balances</u>				
Restricted:				
3450	-	-	-	-
3490	-	-	-	-
3000	-	-	-	-
4000	\$ 27,087	\$ 40,195	\$ -	\$ 69,375

314	315	364	365	410	429
SSA IDEA - Part B Preschool	SSA IDEA - Part B Discretionary	IDEA - Part B Formula - ARP	IDEA - Part B Preschool - ARP	Instructional Material	Fiscal Support Grant
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
4,744	-	-	-	-	35,447
-	-	-	-	-	-
<u>\$ 4,744</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,447</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4,744	-	-	-	-	35,447
-	-	-	-	-	-
<u>4,744</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>35,447</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 4,744</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,447</u>

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HITCHCOCK INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-1 (Page 3 of 3)

August 31, 2023

<u>Data Control Codes</u>		459	480	Total Nonmajor Governmental Funds
		Special Education Coop-Autism	Education Grant	
<u>Assets</u>				
1110	Cash and cash equivalents	\$ -	\$ 13,009	\$ 152,513
1120	Investments	-	-	159,095
1240	Due from other governments	16,542	-	422,897
1260	Due from other funds	-	358	701,760
1000	Total Assets	\$ 16,542	\$ 13,367	\$ 1,436,265
<u>Liabilities</u>				
2160	Accrued wages payable	\$ -	\$ -	\$ 7,631
2170	Due to other funds	16,542	-	262,480
2200	Accrued expenditures	-	-	5,447
2000	Total Liabilities	16,542	-	275,558
<u>Fund Balances</u>				
Restricted:				
3450	Grant funds	-	-	1,147,340
3490	Other restrictions on fund balance	-	13,367	13,367
3000	Total Fund Balances	-	13,367	1,160,707
4000	Total Liabilities and Fund Balances	\$ 16,542	\$ 13,367	\$ 1,436,265

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-2 (Page 1 of 3)
For the Year Ended August 31, 2023

Data Control Codes		205	206	211	240
		Head Start	ESEA Title X Part C	ESEA Title I Part A	National School Breakfast and Lunch Program
Revenues					
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ 38,452
5800	State program revenues	-	-	-	4,482
5900	Federal program revenues	1,594,937	27,987	472,037	1,938,244
5020	Total Revenues	<u>1,594,937</u>	<u>27,987</u>	<u>472,037</u>	<u>1,981,178</u>
Expenditures					
Current:					
0011	Instruction	771,677	-	415,121	-
0013	Curriculum and instructional				
0013	staff development	88,800	-	51,916	-
0021	Instructional leadership	-	-	-	-
0023	School leadership	252,828	-	-	-
0031	Guidance, counseling, and				
0031	evaluation services	16,913	-	-	-
0032	Social work services	13,770	-	-	-
0033	Health services	89,814	-	-	-
0034	Student (pupil) transportation	75,156	-	-	-
0035	Food services	25,299	-	-	1,640,003
0036	Extracurricular activities	-	-	-	-
0051	Plant maintenance and operations	209,569	-	-	6,050
0052	Security and monitoring services	4,960	-	-	-
0053	Data processing services	-	-	-	-
0061	Community services	46,151	27,987	5,000	-
6030	Total Expenditures	<u>1,594,937</u>	<u>27,987</u>	<u>472,037</u>	<u>1,646,053</u>
1200	Net Change in Fund Balances	-	-	-	335,125
0100	Beginning fund balances	-	-	-	812,215
3000	Ending Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,147,340</u>

244	255	263	278	279	280
Career and Technical Basic Grant	Title II Part A	Title III Part A	ESSER - Homeless Children and Youth	ESSER III TCLAS	ARP Homeless II
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
20,261	84,475	16,705	32,330	41,217	49,312
<u>20,261</u>	<u>84,475</u>	<u>16,705</u>	<u>32,330</u>	<u>41,217</u>	<u>49,312</u>
18,143	40,941	16,705	4,775	41,217	7,500
2,118	43,534	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	41,812
-	-	-	-	-	-
-	-	-	2,500	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	25,055	-	-
<u>20,261</u>	<u>84,475</u>	<u>16,705</u>	<u>32,330</u>	<u>41,217</u>	<u>49,312</u>
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-2 (Page 2 of 3)
For the Year Ended August 31, 2023

Data Control Codes	281	282	289	313
	ESSER II	ESSER III	Teacher Incentive	SSA IDEA - Part B Formula
Revenues				
5700	Local and intermediate sources	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-
5900	Federal program revenues	304,003	1,141,126	1,099,307
5020	Total Revenues	<u>304,003</u>	<u>1,141,126</u>	<u>1,099,307</u>
Expenditures				
Current:				
0011	Instruction	155,821	963,834	5,726
0013	Curriculum and instructional staff development	17,973	8,805	-
0021	Instructional leadership	82,862	-	-
0023	School leadership	-	-	-
0031	Guidance, counseling, and evaluation services	-	12,438	977,743
0032	Social work services	-	30,740	-
0033	Health services	47,347	-	-
0034	Student (pupil) transportation	-	10,018	-
0035	Food services	-	-	-
0036	Extracurricular activities	-	-	-
0051	Plant maintenance and operations	-	74,078	-
0052	Security and monitoring services	-	-	-
0053	Data processing services	-	41,213	-
0061	Community services	-	-	-
6030	Total Expenditures	<u>304,003</u>	<u>1,141,126</u>	<u>5,726</u>
1200	Net Change in Fund Balances	-	-	-
0100	Beginning fund balances	-	-	-
3000	Ending Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

314	315	364	365	410	429
SSA IDEA - Part B Preschool	SSA IDEA - Part B Discretionary	IDEA - Part B Formula - ARP	IDEA - Part B Preschool - ARP	Instructional Material	Fiscal Support Grant
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	94,544	134,353
34,546	41,137	197,540	13,365	-	-
<u>34,546</u>	<u>41,137</u>	<u>197,540</u>	<u>13,365</u>	<u>94,544</u>	<u>134,353</u>
12,964	41,137	7,990	13,365	94,544	10,031
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
21,582	-	189,550	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	30,093
-	-	-	-	-	94,229
-	-	-	-	-	-
<u>34,546</u>	<u>41,137</u>	<u>197,540</u>	<u>13,365</u>	<u>94,544</u>	<u>134,353</u>
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS - EXHIBIT H-2 (Page 3 of 3)
For the Year Ended August 31, 2023

Data Control Codes		459	480	Total Nonmajor Governmental Funds
		Special Education Coop- Autism	Education Grant	
<u>Revenues</u>				
5700	Local and intermediate sources	\$ -	\$ 18,234	\$ 56,686
5800	State program revenues	720,989	-	954,368
5900	Federal program revenues	-	-	7,114,255
5020	Total Revenues	<u>720,989</u>	<u>18,234</u>	<u>8,125,309</u>
<u>Expenditures</u>				
Current:				
0011	Instruction	531,720	3,649	3,278,424
0013	Curriculum and instructional staff development	-	-	213,146
0021	Instructional leadership	74,983	-	157,845
0023	School leadership	-	-	252,828
0031	Guidance, counseling, and evaluation services	114,286	-	1,332,512
0032	Social work services	-	-	86,322
0033	Health services	-	-	137,161
0034	Student (pupil) transportation	-	-	87,674
0035	Food services	-	-	1,665,302
0036	Extracurricular activities	-	1,676	1,676
0051	Plant maintenance and operations	-	-	289,697
0052	Security and monitoring services	-	-	35,053
0053	Data processing services	-	-	135,442
0061	Community services	-	-	104,193
6030	Total Expenditures	<u>720,989</u>	<u>5,325</u>	<u>7,777,275</u>
1200	Net Change in Fund Balances	-	12,909	348,034
0100	Beginning fund balances	-	458	812,673
3000	Ending Fund Balances	<u>\$ -</u>	<u>\$ 13,367</u>	<u>\$ 1,160,707</u>

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE - EXHIBIT J-1
For the Year Ended August 31, 2023

<u>Last Ten Years</u>	1		2		3
	<u>Tax Rates</u>				Net Assessed/ Appraised Value For School Tax Purposes
	<u>Maintenance</u>		<u>Debt Service</u>		
2013 and prior	Various		Various		Various
2015	\$	1.0400	\$	0.5000	\$ 532,204,805
2016	\$	1.0400	\$	0.5000	\$ 559,176,563
2017	\$	1.0400	\$	0.5000	\$ 598,722,721
2018	\$	1.0400	\$	0.4800	\$ 658,096,551
2019	\$	1.0400	\$	0.4800	\$ 691,492,418
2020	\$	0.9700	\$	0.4100	\$ 789,766,394
2021	\$	0.9364	\$	0.2000	\$ 871,446,312
2022	\$	0.8720	\$	0.2000	\$ 1,063,438,246
2023	\$	0.8046	\$	0.4000	\$ 1,211,516,935

Totals

8000 Taxes Refunded

9000 Tax Increment

10	20	31	32	40	50
Beginning Balance 9/1/22	Current Year's Total Levy	Maintenance Total Collected	Debt Service Total Collected	Entire Year's Adjustments	Ending Balance 8/31/23
\$ 241,184	\$ -	\$ 10,327	\$ 4,965	\$ (19,332)	\$ 206,560
41,844	-	2,707	1,302	(54)	37,781
43,924	-	3,073	1,477	(54)	39,320
45,705	-	3,622	1,741	(54)	40,288
59,484	-	4,919	2,270	(56)	52,239
62,898	-	9,931	4,584	(468)	47,915
98,227	-	15,119	6,391	531	77,248
116,943	-	28,778	6,147	(6,877)	75,141
308,546	-	110,067	25,245	(17,573)	155,661
-	14,593,933	9,466,431	4,706,155	-	421,347
<u>\$ 1,018,755</u>	<u>\$ 14,593,933</u>	<u>\$ 9,654,974</u>	<u>\$ 4,760,277</u>	<u>\$ (43,937)</u>	<u>\$ 1,153,500</u>
		<u>\$ 140,232</u>			
		<u>\$ -</u>			

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HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM - EXHIBIT J-2
For the Year Ended August 31, 2023

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
	Revenues				
5700	Local and intermediate sources	\$ 11,500	\$ 38,452	\$ 38,452	\$ -
5800	State program revenues	2,000	4,482	4,482	-
5900	Federal program revenues	1,616,568	1,938,244	1,938,244	-
5020	Total Revenues	1,630,068	1,981,178	1,981,178	-
	Expenditures				
	Current:				
0035	Food services	1,555,068	1,640,003	1,640,003	-
0051	Plant maintenance and operations	-	6,050	6,050	-
6030	Total Expenditures	1,555,068	1,646,053	1,646,053	-
1200	Net Change in Fund Balance	75,000	335,125	335,125	-
0100	Beginning fund balance	812,215	812,215	812,215	-
3000	Ending Fund Balance	\$ 887,215	\$ 1,147,340	\$ 1,147,340	\$ -

Notes to Supplementary Information:

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

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HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND - EXHIBIT J-3
For the Year Ended August 31, 2023

Data Control Codes		Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
		Original	Final		
	Revenues				
5700	Local and intermediate sources	\$ 5,284,686	\$ 4,883,307	\$ 4,883,307	\$ -
5800	State program revenues	64,509	140,800	140,800	-
5020	Total Revenues	<u>5,349,195</u>	<u>5,024,107</u>	<u>5,024,107</u>	<u>-</u>
	Expenditures				
	Debt Service:				
0071	Principal	1,695,583	1,980,000	1,980,000	-
0072	Interest and fiscal charges	942,911	2,651,545	2,651,545	-
6030	Total Expenditures	<u>2,638,494</u>	<u>4,631,545</u>	<u>4,631,545</u>	<u>-</u>
1200	Net Change in Fund Balance	2,710,701	392,562	392,562	-
0100	Beginning fund balance	<u>1,599,613</u>	<u>1,599,613</u>	<u>1,599,613</u>	<u>-</u>
3000	Ending Fund Balance	<u>\$ 4,310,314</u>	<u>\$ 1,992,175</u>	<u>\$ 1,992,175</u>	<u>\$ -</u>

Notes to Supplementary Information:

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

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HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
USE OF FUNDS REPORT
SELECT STATE ALLOTMENT PROGRAMS - EXHIBIT J-4
For the Year Ended August 31, 2023

<u>Data Control Codes</u>		<u>Responses</u>
<u>Section A: Compensatory Education Programs</u>		
AP1	Did the District expend any state compensatory education program state allotment funds during the District's fiscal year?	Yes
AP2	Does the District have written policies and procedures for its state compensatory education program?	Yes
AP3	List the total state allotment funds received for state compensatory education programs during the District's fiscal year.	\$ 2,351,594
AP4	List the actual direct program expenditures for state compensatory education programs during the District's fiscal year. (PICs 24, 26, 28, 29, 30, 34)	\$ 1,782,344
<u>Section B: Bilingual Education Programs</u>		
AP5	Did the District expend any bilingual education program state allotment funds during the District's fiscal year?	Yes
AP6	Does the District have written policies and procedures for its bilingual education program?	Yes
AP7	List the total state allotment funds received for bilingual education programs during the District's fiscal year.	\$ 75,511
AP8	List the actual direct program expenditures for bilingual education programs during the District's fiscal year. (PICs 25, 35)	\$ 158,277

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FEDERAL AWARDS AND OTHER COMPLIANCE SECTION

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees of
Hitchcock Independent School District:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hitchcock Independent School District (the "District"), as of and for the year ended August 31, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 2, 2024.

Report on 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) as a basis for designing 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 District's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs as items 2023.001, 2023.002, 2023.003, and 2023.004 that we consider to be material weaknesses.

Report on 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 financial statements. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item 2023.003.

District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of this Report

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

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
February 2, 2024



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

To the Board of Trustees of
Hitchcock Independent School District:

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Hitchcock Independent School District's (the "District") compliance with the types of compliance requirements identified as subject to audit in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2023. The District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

In our opinion, the District complied, in all material respects, with the 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, 2023.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2023.005. Our opinion on each major federal program is not modified with respect to this matter.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the noncompliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The District response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be material weaknesses.

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 a 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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2023.006 to be a material weakness.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires us to perform limited procedures on the District's response to the internal control over compliance findings identified in our compliance audit described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Houston, Texas
February 2, 2024

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
For the Year Ended August 31, 2023

A. SUMMARY OF PRIOR YEAR AUDIT FINDINGS

No prior year findings.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended August 31, 2023

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

What were the results of the auditors' determination of whether the financial statements were prepared in accordance with generally accepted accounting principles?	Unmodified
Is a 'going concern' emphasis-of-matter paragraph included in the auditors' report?	No
Is a significant deficiency in internal control disclosed?	No
Is material weakness in internal control disclosed?	Yes
Is a material noncompliance disclosed?	Yes

Federal Programs

Type of audit report issued on compliance for major programs?	Unmodified
Is a significant deficiency in internal control over major programs disclosed?	No
Is a material weakness in internal control over major programs disclosed?	Yes
Does the auditors' report include a statement that the financial statements include departments, agencies, or other organizational units expending federal awards which are not included in this audit?	No
What is the dollar threshold used to distinguish between Type A and Type B programs?	\$750,000
Did the auditee qualify as low-risk auditee?	Yes
Did the audit disclose any audit findings that the auditor is required to report under Uniform Guidance 2 CFR §200.516 Audit Findings paragraph (a)?	Yes

Major Program Information and Audit Findings

Identification of major programs:

<u>Assistance Listing (AL) Numbers</u>	<u>Name of Federal Program or Cluster</u>	<u>Number of Audit Findings</u>
10.553 & 10.555	Child Nutrition Cluster	2
84.425D	Elementary and Secondary School Emergency Relief (ESSER) Fund	0
84.425U	American Rescue Plan - Elementary and Secondary School Emergency Relief (ARP ESSER)	0
84.425W	American Rescue Plan - Elementary and Secondary School Emergency Relief - Homeless Children and Youth	0

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended August 31, 2023

B. FINANCIAL STATEMENTS FINDINGS

Material Weaknesses:

2023.001 – BANK RECONCILIATION: BACKDATED DEPOSITS

Criteria

In accordance with basic cash management procedures, bank deposits should be recorded in the general ledger on the actual date cash receipts are deposited to the bank.

Condition

As of August 31, 2023, the bank reconciliation for the general fund operating bank account, included a deposit of \$1,976,262 for state revenue that was not actually received until September 26, 2023. District personnel noted the date of deposit was changed (backdated) to intentionally change financial results, as without the deposit, the reconciled bank balance would have an unfavorable negative balance or overdrawn bank balance.

Effect

The backdated deposit on the bank reconciliation distorts the economic reality of the District's actual available cash at year end. This could lead to management decisions based on unreliable information.

An adjustment for the fiscal year ending August 31, 2023 audit was necessary to correct the deposit and properly report the amount as accounts receivable. Upon posting the entry to record the deposit as accounts receivable, the general fund operating bank account reported a deficit cash position as of year end.

Cause

District personnel with oversight responsibility appeared to have reached the incorrect conclusion that backdating the check was better than reporting the actual results of negative cash, which likely would have resulted in negative scrutiny of financial results.

Recommendation

The District should conduct a comprehensive review of its bank reconciliation procedures, emphasizing adherence to basic cash management procedures. Implementation of supervision and review procedures is advised to prevent inaccuracies related to backdated deposit entries on the bank reconciliations.

View of Responsible Officials

See Corrective Action Plan

2023.002 – BANK RECONCILIATION: INTERFUND TRANSFERS IN TRANSIT

Criteria

In accordance with basic cash management procedures, only real or true bank transactions should be recorded in the general ledger.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended August 31, 2023

Condition

As of August 31, 2023, the bank reconciliation for the general fund operating bank account, listed \$1,243,044 in uncleared outstanding transfers to the District's restricted fund bank accounts. However, the District did not have sufficient cash available in the operating bank account to make the transfers, and these amounts remained outstanding 30 days after year end. In discussion with District personnel, it appeared the activity did not represent actual transfers made but were amounts earmarked as payable to the restricted funds, resulting in the District borrowing monies legally restricted for specific purposes and using them for general operating expenditures.

Effect

Cash account balances are incorrectly stated and interfund activity is not clearly reported if nonbank account activity is recorded in the cash management system. This can lead to inaccurate financial reporting, potentially affecting decision-making processes. This discrepancy compromises the reliability and completeness of the bank reconciliation, impacting the overall accuracy of District financial reports.

An adjustment for the fiscal year ending August 31, 2023 audit was required to report the interfund transfers in transit as an interfund payable.

Cause

District personnel appeared to lack an understanding of the overall impact to the District when incorrectly recording transfers of cash instead of interfund payables.

Recommendation

The District should conduct a comprehensive review of its bank reconciliation procedures, emphasizing adherence to basic cash management procedures. Implementation of supervision and review procedures is advised to prevent inaccuracies related to interfund activity in transit on the bank reconciliation. Regular review of documentation for interfund activity in transit should be conducted to ensure ongoing compliance, mitigating the risk of similar misclassifications in future financial periods.

View of Responsible Officials

See Corrective Action Plan

2023.003 – UNAUTHORIZED USE OF RESTRICTED FUNDS

Criteria

Legally restricted monies may only be spent for allowable purposes.

Condition

As noted in comment 2023.002, at year end the District has interfund payables, which were recorded as bank transfers in error. These interfund payables represent amounts that were owed by the general fund to other funds.

The District has used the general fund operating account to receive and record deposits, write checks, or make ACH payments for the general fund activities, as well other restricted grant, construction, and debt payments, despite having actual bank and investment accounts for each of the types of restricted monies. It appears the

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended August 31, 2023

District has attempted to use a hybrid approach for cash management by using a pooled cash account approach and attempting to account for other funds ownership interest in the “pooled cash” as an interfund payable or receivable.

The approach used does not correctly present the actual bank account balance of any of the bank accounts in question, nor does it comply with the District’s adopted policies and procedures as it relates to its hybrid pooled cash approach. This results in restricted monies being held in the general fund operating account, thereby allowing the District to borrow monies legally restricted for specific purposes and using them for general operating expenditures without any approval by the Board.

Effect

The hybrid approach being used brings into question the commingling of restricted and unrestricted monies. Since a pooled cash management system has not been formally established, the approach being used results in a question whether the District likely violated legal and contractual obligations by using restricted monies for unauthorized purposes.

Cause

The core issue stems from the declining fund balance of the general fund and general fund operating cash balance, which appear to result in District personnel addressing the matter by holding restricted cash in the general fund bank account, effectively borrowing monies from restricted sources as well as not reporting the matter to the Board.

Recommendation

The District should promptly reimburse the restricted cash accounts utilized for general fund operations. A thorough review of cash flow management practices is imperative, accompanied by the implementation of strategies to enhance liquidity, such as short-term financing or improved budgetary planning. Strengthening internal controls, providing staff training on fund management, and conducting regular cash flow projections are recommended. Furthermore, seeking professional financial advice is advisable to address the decreasing general fund balance of the general fund and formulate sustainable strategies for fiscal stability.

View of Responsible Officials

See Corrective Action Plan

2023.004 – RECONCILIATION OF TRIAL BALANCE

Criteria

A fundamental requirement of a bookkeeping system is for the trial balance, which is a report of all the year end general ledger balances, to agree to general ledger balances. Additionally, accounts such as beginning equity accounts, should agree to the prior year ending balances.

Condition

The trial balance for the fiscal year ending August 31, 2023 provided by the District did not agree with totals from the supporting general ledger nor to prior year ending August 31, 2022 ending equity account balances.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended August 31, 2023

Effect

Use of the trial balance to prepare financial statements and/or make management decisions based on these amounts would lead to inaccurate results and reduce the confidence level of decisions made based on the reports.

Errors detected during the audit process necessitated significant audit adjustments to correct the discrepancies in the trial balance for the fiscal year ending August 31, 2023.

Cause

The District lacked effective processes to prepare the trial balance and/or detect differences between the reports and supporting general ledger accounts.

Recommendation

The District should compare its trial balance report to the general ledger and investigate differences and either modify its report preparation procedures or work with its financial software vendor to determine the source of the differences.

View of Responsible Officials

See Corrective Action Plan

C. FEDERAL AWARDS FINDINGS

Material Weaknesses:

2023.005 – DEPARTMENT OF AGRICULTURE: ACTIVITIES ALLOWED/ALLOWABLE COSTS-CHILD NUTRITION, ASSISTANCE LISTING NO. 10.553, 10.555 – GRANT PERIOD: YEAR ENDED AUGUST 31, 2023

Criteria

The United States Department of Agriculture has established several grant programs for the purpose of providing school breakfast and lunch for eligible children, known as the Child Nutrition Grant Program. These programs contain requirements on how the grants can be used related to the District providing child nutrition services.

Condition

As noted in comment 2023.003, the District borrowed legally restricted monies to support general fund operations, which included monies borrowed from the Child Nutrition Grant Program. The Child Nutrition Program, for purposes of the District's single audit for 2023, is classified as a major program resulting in test of internal control and compliance with laws and regulations. Accordingly, we are required to specifically report the material weakness in internal control and noncompliance with laws and regulations for this program separately, although part of the District-wide issue.

The use of cash for general fund operations from the Child Nutrition Grant Program is not considered an allowable activity or allowable costs for grant compliance purposes.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended August 31, 2023

Context

Review of the District's bank reconciliation as of year end for the Child Nutrition Grant Program listed a material transfer into the restricted bank account. It was noted that this amount was not received within 30 days of year end.

Cause

The core issue stems from the declining fund balance of the general fund and general fund operating cash balance, which appear to result in District personnel addressing the matter by holding restricted cash in the general fund bank account, effectively borrowing monies from restricted sources as well as not reporting the matter to the Board.

Effect

It appears the District likely violated legal and contractual obligations by using monies for unauthorized purposes.

Recommendation

The District should promptly reimburse the restricted cash accounts utilized for general fund operations. A thorough review of cash flow management practices is imperative, accompanied by the implementation of strategies to enhance liquidity, such as short-term financing or improved budgetary planning. Strengthening internal controls, providing staff training on fund management, and conducting regular cash flow projections are recommended.

The District should consider implementing supervision and review procedures over the bank reconciliation process. These procedures should include: reviewing the reconciliations for unusual activity, including large transfers and deposits; looking for repeat reconciling items from month-to-month; and reviewing the following month's bank statement to ensure deposits and transfers of monies listed on the reconciliation cleared the bank. This review should be documented within the system or on the bank reconciliation by initialing and noting the date of the individual performing the review.

View of Responsible Officials

See Corrective Action Plan

2023.006 – DEPARTMENT OF AGRICULTURE; INTERNAL CONTROL OVER ACTIVITIES ALLOWED/ALLOWABLE COSTS-CHILD NUTRITION, ASSISTANCE LISTING NO. 10.553, 10.555; GRANT PERIOD – YEAR ENDED AUGUST 31, 2023

Criteria

The United States Department of Agriculture has established several grant programs for the purpose of providing school breakfast and lunch for eligible children, known as the Child Nutrition Grant Program. These programs contain requirements for what the grants can be used for related to the District providing child nutrition services.

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended August 31, 2023

Condition

As noted in Comment 2023.003, the District borrowed monies legally restricted to support general fund operations, which included monies borrowed from the Child Nutrition Grant Program. The Child Nutrition Program, for purposes of the District's single audit for 2023, is classified as a major program resulting in test of internal control and compliance with laws and regulations. Accordingly, we are required to specifically report the material weakness in internal control and noncompliance with laws and regulations for this program separately, although part of the District-wide issue.

There is a deficiency in internal control over the bank reconciliation process regarding appropriate segregation of duties and/or supervision and review.

Context

Review of the District's bank reconciliation as of year end for the Child Nutrition Grant Program listed a material transfer into the restricted bank account. It was noted that this amount was not received within 30 days of year end.

Cause

The District currently has the same individual who's authorized to make bank transactions also perform the bank reconciliation process without any supervision and review.

Effect

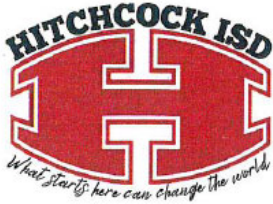
It appears the District likely violated legal and contractual obligations by using monies for unauthorized purposes.

Recommendation

The District should immediately return all borrowed cash. The District should look for additional opportunities to allow for segregation of duties among individuals who are authorized to make bank transactions and those who perform bank reconciliations. The District should consider implementing supervision and review procedures over the bank reconciliation process. These procedures should include: reviewing the reconciliations for unusual activity, including large transfers and deposits; looking for repeat reconciling items from month-to-month; and reviewing the following month's bank statement to ensure deposits and transfers of monies listed on the reconciliation cleared the bank. This review should be documented within the system or on the bank reconciliation by initialing and noting the date of the individual performing the review.

View of Responsible Officials

See Corrective Action Plan



CORRECTIVE ACTION PLAN (Page 1 of 3)

February 2, 2024

Subject: Corrective Action Plan to Financial Statements and Federal Awards Findings

We have received and carefully reviewed the financial statement and single audit findings for the fiscal year ending August 31, 2023. We are committed to addressing them promptly. Below is our corrective action plan to each of the identified issues:

Finding: 2023.001

Corrective Action Plan: Deposits received after the fiscal year end will not be backdated to reflect as a cash deposit. A separation of duties for data entry of deposits and completion of bank reconciliations will be implemented. Currently, the Finance Department consists of one Payroll/Benefits position, one Accounts Payable/Receivable Position, one Grants Specialist Position, and one Finance Director. In prior years, the Finance Department had two additional positions that have since been eliminated, causing those position’s duties to be absorbed amongst the remaining staff. District Administration will assess staffing needs to determine separation of duties and to determine additional staffing needs to meet the requirements of duty separation in relation to posting of deposits in the software.

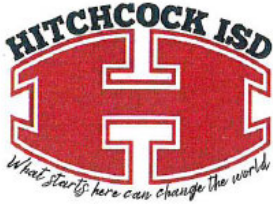
Anticipated Completion Date: February 29, 2024

Finding: 2023.002

Corrective Action Plan: Interbank transfers will be made and posted monthly and immediately at year-end. Review and supervision of procedures will be completed immediately to mitigate inaccuracies related to inter-fund activity of in transit transfers on the bank reconciliation.

<p style="text-align: center;"></p> <p style="text-align: center;">Transaction Processed</p> <p><small>Transaction #3729362 was processed on 1/26/2024.</small></p> <p>From GENERAL OPERATING XXXXXX6135 To FOOD SERVICE XXXXXX3157 Amount \$392,913.28 Date 1/26/2024 Memo transfer</p>	×	<p style="text-align: center;"></p> <p style="text-align: center;">Transaction Processed</p> <p><small>Transaction #3739813 was processed on 2/2/2024.</small></p> <p>From GENERAL OPERATING XXXXXX6135 To CONSTRUCTION XXXXXX3140 Amount \$850,000.00 Date 2/2/2024 Memo transfer back due from general fund</p>	×	<p style="text-align: center;"></p> <p style="text-align: center;">Transaction Processed</p> <p><small>Transaction #3742299 was processed on 2/5/2024.</small></p> <p>From GENERAL OPERATING XXXXXX6135 To FOOD SERVICE XXXXXX3157 Amount \$258,488.72 Date 2/5/2024 Memo DUE FROM GEN OP</p>	×
<p style="text-align: center;"></p> <p style="text-align: center;">Transaction Processed</p> <p><small>Transaction #3743834 was processed on 2/6/2024.</small></p> <p>From GENERAL OPERATING XXXXXX6135 To CONSTRUCTION XXXXXX3140 Amount \$831,017.00 Date 2/6/2024 Memo due from gen op to constr</p>	×	<p style="text-align: center;"></p> <p style="text-align: center;">Transaction Processed</p> <p><small>Transaction #3746509 was processed on 2/8/2024.</small></p> <p>From GENERAL OPERATING XXXXXX6135 To INTEREST & SINKING XXXXXX3124 Amount \$625,504.88 Date 2/8/2024 Memo DUE TO I AND S AT YE 8.31.23</p>	×		

Completion Date: February 8, 2024



CORRECTIVE ACTION PLAN (Page 2 of 3)

Finding: 2023.003

Corrective Action Plan: Reimbursement of restricted cash to proper funds has been completed for year-end 2022-2023. District Administration will assess staffing needs to determine separation of duties and to determine additional staffing needs to meet the requirements of duty separation. District Administration will also address decreasing fund balance by assessing all District costs, operational needs, and excessive costs, if any.

Anticipated Completion Date: March 29, 2024

Finding: 2023.004

Corrective Action Plan: District Administration changed software vendors and conversion resulted in accounts placed out of balance at year-end in the new software. Staff have been working with vendor to correct all out of balances and improper conversion of data. The trial balance report was compared to the general ledger for 2022-2023 and now matches to the final audit balances.

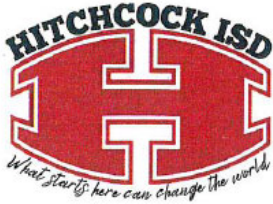
Completion Date: February 5, 2024

Finding: 2023.005

Corrective Action Plan: Reimbursement of Department of Agriculture cash has been completed for year-end 2022-2023. District Administration will assess staffing needs to determine separation of duties and to determine additional staffing needs to meet the requirements of duty separation. Currently, the Finance Department consists of one Payroll/Benefits position, one Accounts Payable/Receivable Position, one Grants Specialist Position, and one Finance Director. In prior years, the Finance Department had two additional positions that have since been eliminated, causing position duties to be absorbed amongst the remaining staff. Journal postings to reimburse shown below.

JOURNAL ENTRY DETAILS

Search Sort Order		View: Skyward Default (Modified)		Filter: Skyward Default		Quick Filter	
↑	Sort Order	Account	Short Description	Debit	Credit	Reference	
↻	1	199 A 00 1110 10 000 0 00 0 50	TO REUMBURSE FOOD SER...		701,401.84		
↻	2	199 L 00 2110 10 000 0 00 2 40	TO REUMBURSE FOOD SER...	392,913.28			
↻	3	199 L 00 2172 00 000 0 00 0 00	TO REUMBURSE FOOD SER...	308,488.56			
↻	4	240 A 00 1110 10 000 0 00 0 00	TO REUMBURSE FOOD SER...	701,401.84			
↻	5	240 L 00 2171 00 000 0 00 0 00	TO REUMBURSE FOOD SER...		701,401.84		



CORRECTIVE ACTION PLAN (Page 2 of 3)

JOURNAL ENTRY DETAILS

Search Sort Order View: Skyward Default (Modified) Filter: Skyward Default Quick Filter

Sort Order	Account	Short Description	Debit	Credit	Reference
1	199 A 00 1110 10 000 0 00 0 00	TO REIMBURSE CAP PROJE...		1,681,017.37	
2	199 L 00 2174 00 000 0 00 0 00	TO REIMBURSE CAP PROJE...	1,681,017.37		
3	604 A 00 1110 10 000 0 00 0 00	TO REIMBURSE CAP PROJE...	1,681,017.37		
4	604 A 00 1261 00 000 0 00 0 00	TO REIMBURSE CAP PROJE...		1,681,017.37	

JOURNAL ENTRY DETAILS

Search Sort Order View: Skyward Default (Modified) Filter: Skyward Default Quick Filter

Sort Order	Account	Short Description	Debit	Credit	Reference
1	199 A 00 1110 10 000 0 00 0 00	TO REIMBURSE I&S AT YE 2...		625,504.88	
2	199 L 00 2173 00 000 0 00 0 00	TO REIMBURSE I&S AT YE 2...	625,504.88		
3	599 A 00 1110 10 000 0 00 0 00	TO REIMBURSE I&S AT YE 2...	625,504.88		
4	599 A 00 1261 00 000 0 00 0 00	TO REIMBURSE I&S AT YE 2...		625,504.88	

Anticipated Completion Date: March 29, 2024

Finding: 2023.006

Corrective Action Plan: All borrowed cash has been transferred back to proper accounts. Journal entries and bank transfers shown above. District Administration will assess staffing needs to determine separation of duties and to determine additional staffing needs to meet the requirements of duty separation in connection with the reconciliation process. Currently, the Finance Department consists of one Payroll/Benefits position, one Accounts Payable/Receivable Position, one Grants Specialist Position, and one Finance Director. In prior years, the Finance Department had two additional positions that have since been eliminated, causing position duties to be absorbed amongst the remaining staff.

Anticipated Completion Date: March 29, 2024

We are dedicated to transparency and accountability in our District. Our team is actively working on implementing the necessary changes to address the findings, and we are committed to ensuring that our school district operates in full compliance with all relevant regulations.

I will be responsible for implementation of the corrective action plan for all the findings listed above.

Travis W. Edwards

Travis W. Edwards, Superintendent

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HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT K-1 (Page 1 of 2)
For the Year Ended August 31, 2023

(1) Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	(2) Federal AL Number	(2A) Pass-Through Identifying Number	(3) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<i>Passed Through State Department of Education</i>			
Title I, Part A	84.010A	23610101084908	\$ 478,880
Title II, Part A	84.367A	23694501084908	85,720
Title III, Part A	84.365A	23671001084908	16,960
Title IV, Part A	84.424A	23680101084908	5,814
Perkins V Strengthening CTE for 21st Century	84.048A	23420006084908	20,568
Special Education (IDEA) Cluster:			
IDEA B, Formula	84.027A	236600010849086000	1,090,028
IDEA B, Formula	84.027A	246600010849086000	25,812
IDEA B, Preschool	84.173A	236610010849086000	32,264
IDEA B, Preschool	84.173A	246610010849086000	2,795
COVID-19 IDEA B, Formula - American Rescue Plan	84.027X	225350010849085000	234,060
COVID-19 IDEA B, Preschool - American Rescue Plan	84.173X	225360020849085000	14,034
IDEA B, Discretionary Residential	84.027A	66002306	41,137
Education for Homeless Children and Youth	84.196A	234600057110038	28,401
COVID-19 ESSER I	84.425D	20521001084908	86
COVID-19 ESSER II	84.425D	21521001084908	314,273
COVID-19 ESSER III	84.425U	21528001084908	1,260,370
COVID-19 ESSER I - Homeless Children and Youth	84.425W	215330017110038	36,850
COVID-19 ESSER III - Texas COVID Learning Acceleration Support	84.425U	21528042084908	46,099
COVID-19 ESSER II - Homeless Children and Youth	84.425W	21533002084908	54,822
TOTAL U.S. DEPARTMENT OF EDUCATION			3,788,973

HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - EXHIBIT K-1 (Page 2 of 2)
For the Year Ended August 31, 2023

(1) Federal Grantor/Pass-Through Grantor/ Program or Cluster Title	(2) Federal AL Number	(2A) Pass-Through Identifying Number	(3) Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
<i>Passed Through State Department of Education</i>			
Child Nutrition Cluster:			
School Breakfast Programs	10.553	806780706	\$ 303,830
National School Lunch	10.555	806780706	890,373
<i>Passed Through State Department of Agriculture</i>			
COVID-19 Supply Chain Assistance	10.555	236TX400N8903	44,522
Child and Adult Care Food Program	10.558	206TX332N1099	610,250
State Pandemic Electronic Benefit Transfer (P-EBT)			
Local Level Administrative Costs Grant	10.649	236TX10659009	3,135
<i>Direct Award</i>			
USDA Commodities	10.565	806780706	86,133
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>1,938,243</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<i>Direct Award</i>			
Head Start	93.600	06CH010636	1,619,421
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>1,619,421</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 7,346,637</u>
		Federal revenue per SEFA	\$ 7,346,637
		Universal E-rate	24,840
		SHARS	390,076
		Reimbursement for debt service	138,235
		C-2 Federal Revenue	<u>\$ 7,899,788</u>

The accompanying notes are an integral part of this schedule.

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HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2023

NOTE 1: BASIS OF ACCOUNTING

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

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

NOTE 3: INDIRECT COST RATE

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

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HITCHCOCK
INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO
SELECTED SCHOOL FIRST INDICATORS - EXHIBIT L-1
For the Year Ended August 31, 2023

<u>Data Control Codes</u>		<u>Responses</u>
SF1	Was there an unmodified opinion in the annual financial report on the financial statements as a whole?	Yes
SF2	Were there any disclosures in the annual financial report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF3	Did the District make timely payments to the Teacher Retirement System, Texas Workforce Commission, Internal Revenue Service, and other governmental agencies?	Yes
SF4	Was the District issued a warrant hold?	No
SF5	Did the annual financial report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	Yes
SF6	Was there any disclosure in the annual financial report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	Yes
SF7	Did the District post the required financial information on its website in accordance with Governmental Code, Local Government Code, Texas Education Code, Texas Administrative Code, and other statutes, laws, and rules that were in effect at the District's fiscal year end?	Yes
SF8	Did the Board members discuss the District's property values at a Board meeting within 120 days before the District adopted its budget?	Yes
SF9	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end	<u>\$ 3,145,570</u>

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