

HEARNE INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT FOR THE
YEAR ENDED AUGUST 31, 2014

HEARNE ISD
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2014

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CERTIFICATE OF BOARD


Hearne Independent School District
Name of School District

Robertson
County

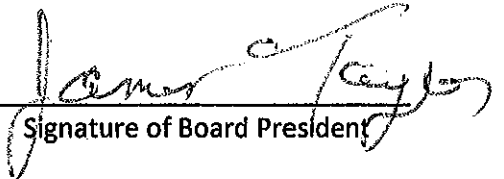
198-905
Co.-Dist. Number

We, the undersigned, certify that the attached financial reports of the above-named school district were
Reviewed and (check one) ☒ approved _____ disapproved for the year ended August 31, 2014

At a meeting of the Board of Trustees of such school district on the 20th day of January, 2015.



Signature of Board Secretary V.P.



Signature of Board President

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



**KIMMY JACKSON
& ASSOCIATES, L.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Hearne Independent School District
Hearne, TX

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hearne Independent School District as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District's activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Hearne Independent School District, as of August 31, 2014, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-9 and 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting

for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The accompanying schedules of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The Texas Education Agency requires school districts to include certain information in the annual Financial Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-5. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Kimmy Jackson & Associates, LLC

Temple, TX
January 20, 2015

Management's Discussion and Analysis Hearne Independent School District

In this section of the Annual Financial and Compliance Report, we, the managers of Hearne Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2014. Please read it in conjunction with the independent auditors' report and the District's Basic Financial Statements.

USING THIS ANNUAL REPORT

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

Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in government-wide statements or the fund financial statements.

The combining statements for non-major funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and the Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statements of Activities

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

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the district and grants provided by the U. S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds-not the District as a whole. Laws and contracts require the District to establish some funds. The district's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities).

Government funds-Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities and alumni scholarship programs. All of the District's fiduciary activities are reported in the Statements of Net Position. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the net assets (Table I) and changes in net assets (Table II) of the District's governmental activities.

Table 1
Net Position

Description	Governmental Activities		Total Percentage Change
	2014	2013	2013-2014
Current Assets	\$ 8,907,519	\$ 7,933,001	12.28%
Capital Assets	17,401,453	19,038,480	-8.60%
Total Assets	26,308,972	26,971,481	-2.46%
Deferred Outflows of Resources	208,597	-	0.00%
Current Liabilities	121,456	263,055	-53.83%
Long-Term Liabilities	11,471,319	11,574,775	-0.89%
Total Liabilities & Deferred Outflows	11,801,372	11,837,830	-0.31%
Net Position:			
Invested in Capital Assets	5,896,023	6,383,001	-7.63%
Restricted	2,007,680	4,047,362	-50.40%
Unrestricted	6,841,452	4,703,288	45.46%
Total Net Position	\$ 14,745,155	\$ 15,133,651	-2.57%

Net position of the District's governmental activities decreased from \$15,133,651 to \$14,745,155. This decrease in governmental net position was the result of the District's expenditures exceeding revenues by about \$388,495. Unrestricted net assets-the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – were \$6,841,452 at August 31, 2014.

Table 2
Changes in Net Position

Description	Governmental Activities		Total Percentage Change
	2014	2013	2013-2014
Program Revenues			
Charges for Service	\$ 106,481	\$ 146,623	-27.38%
Operating Grants and Contributions	2,121,743	2,355,540	-9.93%
General Revenues -			
Maintenance & Operations Taxes	4,497,980	4,516,055	-0.40%
Debt Service Taxes	987,362	998,747	-1.14%
State Foundation Program	3,276,039	4,133,402	-20.74%
Investment Earnings	25,079	29,911	-16.15%
Other Revenues	389,148	123,392	215.38%
Total Revenues	11,403,832	12,303,670	-7.31%
 Program Expenditures			
Instruction, Curriculum and Media Services	6,350,148	6,298,227	0.82%
School Leadership	703,919	689,073	2.15%
Student Support Services	572,300	648,197	-11.71%
Food Services	665,035	640,095	3.90%
Extracurricular Activities	395,715	387,895	2.02%
General Administration	440,249	429,116	2.59%
Plant Maintenance, Security & Data Processing	1,636,269	1,407,243	16.27%
Community Services	757	4,388	-82.75%
Debt Services - Interest on Long Term Debt	492,982	515,695	-4.40%
Capital Outlay	-	-	0.00%
Other Business-Type Activities	534,954	329,570	62.32%
Total Expenses	11,792,327	11,349,499	3.90%
 Increase(Decrease) in Net Position	 \$ (388,495)	 \$ 954,171	 -140.72%

The cost of all governmental activities this year was \$11,792,327. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$5,485,342 because some of the costs were directly benefited from the programs, \$106,481, or by other governments and organizations that subsidized certain programs with grants and contributions of \$5,397,782, restricted and unrestricted.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of \$8,051,581.

Over the course of the year, the Board of Trustees revised the district's budget several times. These budget amendments fall into two categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances. The second category involved amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

The District's General Fund balance of \$5,350,689 differs from the General Fund's budgetary fund balance of \$5,635,428 reported in the budgetary comparison schedule. This is principally due to underestimating revenues described above.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

Capital Assets are generally defined as real or personal property that has useful lives of two years or more. The District has a capitalization threshold of \$5,000 which means that all capital type assets with a cost or initial value of less than \$5,000 are not recorded in the capital assets inventory.

During 2014, the District invested \$134,514, in a Chevy Impala, a Chevy Equinox and computers for the campuses.

Debt

At year-end, the District had \$3,750 in accrued local leave (Note I). More detailed information about the District's long-term liabilities is presented in Note G, H, and M to the financial statements.

ECONOMIC FACTORS AND NEXT YEARS'S BUDGETS AND RATES

The following factors were considered in setting the fiscal year 2015 Budget and Tax Rate. The 2014 certified values of the District increased approximately \$6,484,532 from the previous year. Due to the increase in taxable values, the District will have to make adjustments for the upcoming year. The total bond indebtedness for the 2013-2014 school year is \$ 10,705,000. The District tax rate will remain \$1.27 with Maintenance and Operation at \$1.04 and Interest & Sinking at \$0.23.

The district refunded the Series 2005 bonds. The refunding issue achieved a total present value savings equal to 12.007% of the \$9,530,000 refunded amount. Average annual savings will be \$88,795 from 2015 through 2030. Total debt service savings through the life of the refunding issue will be \$1,420,723. Due to the decrease in the bond payment, the Interest and Sinking tax rate may be adjusted accordingly.

The District has entered an agreement with TASB and Entegral Solutions to develop, design, install and manage performance of an energy efficiency and facility improvement program. The preliminary project scope of work includes: lighting retrofits, HVAC replacements, energy management system installation, and other facility improvements/conservation measures. The preliminary cost for the scope of work is \$1,200,000.

The General Fund Budget for 2014-2015 will be adopted with the following factors considered: Increase in salaries for all staff in order to keep us marketable with neighboring districts, monitor enrollment and staff according to needs, and maintain positions without TIF Grant. Student enrollment has increased for the 2014-2015 school year, so we project comparable numbers for the 2015-2016 school year, renovations, improvements, new construction, and updates of district vehicles.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's 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 Hearne Independent School District, 900 Wheelock St., Hearne, Texas 77859.

HEARNE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2014

EXHIBIT A-1

Data Control Codes		Governmental Activities
ASSETS		
1110	Cash and Cash Equivalents	\$ 1,556,438
1120	Current Investments	6,113,793
1220	Property Taxes Receivable (Delinquent)	820,271
1230	Allowance for Uncollectible Taxes	(246,082)
1240	Due from Other Governments	661,290
1290	Other Receivables, net	1,809
	Capital Assets:	
1510	Land	1,045,260
1520	Buildings, Net	15,810,394
1530	Furniture and Equipment, Net	511,688
1990	Other Assets	34,111
1000	Total Assets	<u>26,308,972</u>
DEFERRED OUTFLOWS OF RESOURCES		
1702	Deferred Resource Outflow #2	208,597
1700	Total Deferred Outflows of Resources	<u>208,597</u>
LIABILITIES		
2110	Accounts Payable	28,594
2160	Accrued Wages Payable	268,432
2180	Due to Other Governments	4,070
	Noncurrent Liabilities	
2501	Due Within One Year	533,750
2502	Due in More Than One Year	10,937,569
2000	Total Liabilities	<u>11,772,415</u>
NET POSITION		
3200	Net Investment in Capital Assets	5,896,023
3820	Restricted for Federal and State Programs	96,995
3850	Restricted for Debt Service	348,704
3860	Restricted for Capital Projects	1,085,000
3870	Restricted for Campus Activities	17,206
3890	Restricted for Other Purposes	459,775
3900	Unrestricted	6,841,452
3000	Total Net Position	<u><u>\$ 14,745,155</u></u>

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

HEARNE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2014

EXHIBIT B-1

FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	Program Revenues			Net (Expense) Revenue and Changes in Net Position	
	1	3	4	6	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	
Primary Government:					
GOVERNMENTAL ACTIVITIES:					
11	Instruction	\$ 6,160,936	\$ 20,662	\$ 1,321,105	\$ (4,819,169)
12	Instructional Resources and Media Services	75,054	-	-	(75,054)
13	Curriculum and Staff Development	114,158	-	98,879	(15,279)
21	Instructional Leadership	121,747	-	62,017	(59,730)
23	School Leadership	582,172	-	4,008	(578,164)
31	Guidance, Counseling and Evaluation Services	83,835	-	4,540	(79,295)
33	Health Services	77,738	-	27,901	(49,837)
34	Student (Pupil) Transportation	410,727	-	-	(410,727)
35	Food Services	665,035	37,291	545,278	(82,466)
36	Extracurricular Activities	395,714	19,528	-	(376,186)
41	General Administration	440,249	29,000	-	(411,249)
51	Facilities Maintenance and Operations	1,369,840	-	-	(1,369,840)
52	Security and Monitoring Services	47,899	-	-	(47,899)
53	Data Processing Services	218,530	-	57,258	(161,272)
61	Community Services	757	-	757	-
72	Debt Service - Interest on Long Term Debt	492,982	-	-	(492,982)
73	Debt Service - Bond Issuance Cost and Fees	179,640	-	-	(179,640)
93	Payments related to Shared Services Arrangements	221,283	-	-	(221,283)
99	Other Intergovernmental Charges	134,031	-	-	(134,031)
[TP] TOTAL PRIMARY GOVERNMENT:		\$ 11,792,327	\$ 106,481	\$ 2,121,743	(9,564,103)
Data Control Codes	General Revenues:				
	Taxes:				
MT	Property Taxes, Levied for General Purposes				4,497,980
DT	Property Taxes, Levied for Debt Service				987,362
GC	Grants and Contributions not Restricted				3,276,039
IE	Investment Earnings				25,079
MI	Miscellaneous Local and Intermediate Revenue				404,143
FR	Transfers In (Out):				(14,995)
TR	Total General Revenues & Transfers				9,175,608
CN	Change in Net Position				(388,495)
NB	Net Position - Beginning				15,133,650
NE	Net Position--Ending				\$ 14,745,155

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

HEARNE INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2014

Data Control Codes	199 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 1,276,755	\$ -	\$ 279,683	\$ 1,556,438
1120 Investments - Current	3,762,825	2,233,970	116,998	6,113,793
1220 Property Taxes - Delinquent	672,066	-	148,205	820,271
1230 Allowance for Uncollectible Taxes (Credit)	(201,620)	-	(44,462)	(246,082)
1240 Receivables from Other Governments	44,906	-	616,384	661,290
1260 Due from Other Funds	544,486	4,017	-	548,503
1290 Other Receivables	1,809	-	-	1,809
1900 Other Assets	34,111	-	-	34,111
1000 Total Assets	<u>\$ 6,135,338</u>	<u>\$ 2,237,987</u>	<u>\$ 1,116,808</u>	<u>\$ 9,490,133</u>
LIABILITIES				
2110 Accounts Payable	\$ 26,990	\$ -	\$ 1,604	\$ 28,594
2160 Accrued Wages Payable	268,432	-	-	268,432
2170 Due to Other Funds	4,017	-	544,486	548,503
2180 Due to Other Governments	-	-	4,070	4,070
2000 Total Liabilities	<u>299,439</u>	<u>-</u>	<u>550,160</u>	<u>849,599</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	485,210	-	103,743	588,953
2600 Total Deferred Inflows of Resources	<u>485,210</u>	<u>-</u>	<u>103,743</u>	<u>588,953</u>
FUND BALANCES				
Restricted Fund Balance:				
3480 Retirement of Long-Term Debt	-	-	348,704	348,704
Committed Fund Balance:				
3510 Construction	1,085,000	-	-	1,085,000
3530 Capital Expenditures for Equipment	435,000	-	-	435,000
Assigned Fund Balance:				
3550 Construction	-	2,237,987	-	2,237,987
3590 Other Assigned Fund Balance	1,265,000	-	-	1,265,000
3600 Unassigned Fund Balance	2,565,689	-	114,201	2,679,890
3000 Total Fund Balances	<u>5,350,689</u>	<u>2,237,987</u>	<u>462,905</u>	<u>8,051,581</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 6,135,338</u>	<u>\$ 2,237,987</u>	<u>\$ 1,116,808</u>	<u>\$ 9,490,133</u>

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

HEARNE INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2014

Total Fund Balances - Governmental Funds	\$ 8,051,581
<p>1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$23,760,061 and the accumulated depreciation was \$5,797,060. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.</p>	6,358,225
<p>2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2013 capital outlays and debt principal payments is to increase (decrease) net position.</p>	410,547
<p>3 The 2013 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.</p>	(685,177)
<p>4 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.</p>	609,979
19 Net Position of Governmental Activities	\$ 14,745,155

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

HEARNE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	199 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 4,947,075	\$ 260	\$ 1,101,410	\$ 6,048,745
5800 State Program Revenues	3,625,834	-	68,974	3,694,808
5900 Federal Program Revenues	563,709	-	1,139,265	1,702,974
5020 Total Revenues	<u>9,136,618</u>	<u>260</u>	<u>2,309,649</u>	<u>11,446,527</u>
EXPENDITURES:				
Current:				
0011 Instruction	4,939,411	-	957,591	5,897,002
0012 Instructional Resources and Media Services	64,183	-	-	64,183
0013 Curriculum and Instructional Staff Development	3,571	-	98,880	102,451
0021 Instructional Leadership	59,729	-	62,018	121,747
0023 School Leadership	574,074	-	4,008	578,082
0031 Guidance, Counseling and Evaluation Services	75,928	-	4,539	80,467
0033 Health Services	44,845	-	27,901	72,746
0034 Student (Pupil) Transportation	371,978	-	-	371,978
0035 Food Services	613,570	-	10,017	623,587
0036 Extracurricular Activities	280,475	-	37,078	317,553
0041 General Administration	440,654	-	-	440,654
0051 Facilities Maintenance and Operations	1,296,043	-	-	1,296,043
0052 Security and Monitoring Services	47,899	-	-	47,899
0053 Data Processing Services	162,347	-	57,258	219,605
0061 Community Services	-	-	757	757
Debt Service:				
0071 Principal on Long Term Debt	-	-	470,668	470,668
0072 Interest on Long Term Debt	-	-	492,982	492,982
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	221,283	-	-	221,283
0099 Other Intergovernmental Charges	134,031	-	-	134,031
6030 Total Expenditures	<u>9,330,021</u>	<u>-</u>	<u>2,223,697</u>	<u>11,553,718</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(193,403)</u>	<u>260</u>	<u>85,952</u>	<u>(107,191)</u>
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	164,950	-	87,318	252,268
8911 Transfers Out (Use)	(252,268)	-	-	(252,268)
7080 Total Other Financing Sources (Uses)	<u>(87,318)</u>	<u>-</u>	<u>87,318</u>	<u>-</u>
1200 Net Change in Fund Balances	(280,721)	260	173,270	(107,191)
0100 Fund Balance - September 1 (Beginning)	<u>5,631,410</u>	<u>2,237,727</u>	<u>289,635</u>	<u>8,158,772</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 5,350,689</u>	<u>\$ 2,237,987</u>	<u>\$ 462,905</u>	<u>\$ 8,051,581</u>

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

HEARNE INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2014

Total Net Change in Fund Balances - Governmental Funds	\$ (107,191)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2013 capital outlays and debt principal payments is to increase (decrease) net position.	410,547
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(685,177)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	(6,674)
Change in Net Position of Governmental Activities	\$ (388,495)

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

HEARNE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2014

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 7,295
Investments - Current	15,000
Total Assets	<u>\$ 22,295</u>
LIABILITIES	
Due to Student Groups	\$ 22,295
Total Liabilities	<u>\$ 22,295</u>

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

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Notes to the Financial Statements

HEARNE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hearne Independent School District (the "District") is a public education agency operating under the applicable laws and regulations of the State of Texas. 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 and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators, and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity". There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Hearne Independent School District non-fiduciary activities with most of the inter-fund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues.

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

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

HEARNE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014

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

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

The government-wide financial statements use 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 the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year-end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenues when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as deferred revenues until related and authorized expenditure have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

HEARNE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014

D. FUND ACCOUNTING

The District reports the following major governmental funds:

1. **The General Fund**-The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Capital Projects Funds**- The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Additionally, the District reports the following fund type(s):

Governmental Funds:

1. **Special Revenue Funds**-The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
2. **Debt Service Fund**-The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Fiduciary Funds:

1. **Agency Funds**-The District accounts for resources held for others in a custodial capacity in agency funds. The District accounts for student activity accounts and successor-in-interest tax collection funds as agency funds.

E. OTHER ACCOUNTING POLICIES

1. The District reports inventories of supplies as expenditures. If material amount of supplies are on hand at the end of the year, their cost is recorded as inventory and the fund balance is reserved for the same amount.
2. In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed during the current period.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as

HEARNE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014

other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

3. It is the District's policy to permit some employees to accumulate earned but unused sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the government. All sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.
4. Capital assets, which include land, buildings, furniture and equipment, are reported in the governmental activities column in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	39-40
Building Improvements	39-40
Vehicles	5
Office Equipment	5
Computer Equipment	5

5. In the fund financial statements, governmental funds report in the following classifications:
 - a. Non-spendable fund balance-amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).

HEARNE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014

- b. Restricted fund balance-amounts constrained to specific purposes by their providers (such as grantor, bondholders, and higher levels of government) through constitutional provisions by enabling legislation.
 - c. Committed fund balance-amounts constrained to specific purposes by the government itself. This requires a formal action by the Board of Trustees. Commitments may be changed or lifted only by the Board of Trustees taking the same formal action that imposed the constraint originally.
 - d. Assigned fund balance-amounts *intended* to be used by the District for specific purposes. Intent can be expressed by the Board of Trustees or by an official or body to whom the Board of Trustees delegates the authority. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources other governmental funds are, at a minimum, intended to be used for the purpose of that fund.
 - e. Unassigned fund balance-is the residual classification of the general fund and includes all amounts not constrained in other classifications. Unassigned amounts are technically available for any purposes.
6. The Board of Trustees resolves that all special revenue funds which received funds from a grantor agency at the federal, state, or local level and hence are constrained to spend those funds on a specific purpose as dictated by the grantor agency will report restricted fund balance for those special revenue funds based on the definition described within this policy.
7. Authorization and Action:
- a. Commit fund balance-The Board of Trustee is the District's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is to resolution approval by the Board at a District meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period.
 - b. Assign fund balance-The District has designated the Superintendent and Business Manager as the officials who are authorized to assign fund balance policy. Both authorized officials must approve each assignment before the item can be presented in the financial statements. Assignments of fund balance do not require formal action by the Board of Trustees and can be made subsequent to year end.
 - c. Minimum unassigned fund balance-The District will strive to maintain an unassigned fund balance of not less than 33% of the budgeted operational expenditures in all District's general fund. Due to the volatile nature of a majority of its revenues, it is not deemed excessive for the District to maintain fund balance in the general fund at a level greater than 40% of the budgeted operational expenditures. The purpose of this unassigned fund balance is to alleviate unanticipated budget shortfalls and to ensure the orderly provisions of services. Should unassigned fund balance fall below the goal or has a deficiency, the District will seek to reduce expenditures prior to increasing revenues to replenish fund balance within a reasonable timeframe. The District will try to avoid using fund balances for recurring operation expenditures. To the extent that

HEARNE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014

the unassigned fund balance exceeds the minimum target, the District may draw upon the fund balance to provide cash financing for capital projects or other one-time purchases. The Board of Trustees may also approve the systemic reduction of any excess balance as a tactic to prevent tax increases or offset reductions in State funding.

8. When multiple categories of fund balance are available for expenditure (for example, a construction project being funded partly by bonds, funds set aside by the Board of Trustees, and unassigned fund balance), the District will start with the most restricted category-spending those funds first-before moving down to the next category with available funds.
9. The Data Control Codes refer to the account code structure prescribed by TEA in the **Resource Guide**. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide database for policy development and funding plans.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund and the Food Service Fund. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit C-5, food Service Fund report is Exhibit J-4, and the Debt Service Fund report is Exhibit J-5.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the Board legally enacts the budget through passage of a resolution. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. The following amendments were significant:

	Amendment Amount
Instruction	(\$81,420)
Extracurricular	\$83,350
Facilities & Maintenance & Operations	\$84,000

HEARNE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014

4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end.

III. DETAILED NOTES ON ALL FUNDS

A. **DEPOSITS AND INVESTMENTS**

Legal and Contractual Provisions Governing Deposits and Investments

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U. S. Treasury, certain U. S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The district is in substantial compliance with the requirements of the Act and with local policies.

Deposit and Investment Risk

In compliance with the **Public Funds Investment Act**, the District has adopted a deposit and investment policy. That policy does address the following risks:

- a. **Custodial Credit Risk-Deposits:** In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The district's policy regarding types of deposits allowed and collateral requirements are as follows: The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the **Depository Contract Law**. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. The District is in substantial compliance with the requirements of the ACT and with local policies or by pledged held by the District's agent bank in the District's name.
- b. **Custodial Credit Risk-Investments:** For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District's investments that are held by an outside party, are fully insured and backed by the U. S. Government and, registered in the name of the district. It is the District's policy to ensure that potential brokers/dealers are in

HEARNE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014

good standing with the National Association of Securities Dealers, registered with the Texas State Securities Board and has a membership in the Securities Investor Protection Corporation. The ratings of investment pools used by the district are disclosed in the "external investment pool" section of the footnotes. Therefore, the District is not exposed to custodial credit risk.

c. Interest-rate risk occurs when potential purchases of debt securities do not agree to pay face value for those securities if interest rates rise. Except for the general fund and capital project funds, the allowed maturity of any individual investment owned by the District shall not exceed one year from the time of purchase. The general fund has a maximum dollar-weighted average maturity that shall not exceed 360 days. Limiting investment maturities and purchasing government securities are the District's means for limiting its exposure to fair value losses arising from interest rate increases.

d. Concentration Risk-Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. All of the District's investments are explicitly guaranteed by the U. S. Government or invested in an external investment pool and therefore, are not exposed to concentration risk.

The District's investments at August 31, 2014, are shown below:

	Fair Value
Time Deposits	\$ 4,803,862
Taxable Bonds -long term	32,507
Investments in Investment Pools and Money Markets	
TexSTAR	\$ 2,634,167
Centennial Money Market Fund	36,252
	<u>2,670,419</u>
	<u>\$ 7,506,789</u>

Market values of time deposits and taxable bonds are based on quoted market value. In accordance with Governmental Accounting Standards Board Statement (GASB) No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment pools, these securities are reported at fair value. All unrealized gains/losses are reported as part of portfolio income. The District has elected to report portion of Wells Fargo investments as cash equivalents in the amount of \$ 36,252. The remaining balance held at Wells Fargo of \$ 32,507, TexSTAR of \$ 2,634,167 and all time deposits of \$ 4,803,862 compromise current investments. The District adjusts investments to fair value on a monthly basis.

External Investment Pools:

The District uses the following external investment pools:

TexSTAR. The Texas Short-Term Asset Reserve Program (TexSTAR) was organized in conformity with the with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds

HEARNE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014

Investment Act, Chapter 2256 of the Texas Government Code. JP Morgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. serve as co-administrators for TexSTAR under an agreement with the TexSTAR Board.

TexSTAR will invest only in instruments authorized under both the Public Funds Investment Act and the current TexSTAR Investment Policy. The primary objectives of TexSTAR are, in order of priority, preservation and protection of principal, maintenance of sufficient liquidity to meet Participant's needs, diversification to avoid unreasonable or avoidable risk, and yield. In order to comply with the Public Investment Act, TexSTAR maintains a AAA rating from Standard & Poor's which monitors weekly the funds compliance with its rating requirements. TexSTAR operates in a manner consistent with the SEC's Rule 2a-7 of the Investment company Act of 1940. The TexSTAR Cash Reserve Fund seeks to maintain a net assets value of \$1.00 per unit and provides participants with the investment of funds that require daily liquidity availability. All investments are stated at amortized cost, which closely approximates the market value of the securities. All TexSTAR securities are marked to market on a daily basis.

B. PROPERTY TAXES

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

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible personal property taxes periodically reviewed and written off, but the District is prohibited from writing off rental property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND BALANCES AND TRANSFERS

Interfund balances at August 31, 2014 consisted of the following individual fund balances:

Fund	Due from Other Funds	Due to Other Funds
Major Funds:		
<u>General Fund:</u>		
General Fund	\$ 544,486	\$ 4,017
Total General Fund	<u>\$ 544,486</u>	<u>\$ 4,017</u>
 <u>Special Revenue Funds:</u>		
Special Revenue Funds	\$ 4,017	\$ 544,486
Total Special Revenue Funds	<u>\$ 4,017</u>	<u>\$ 544,486</u>

HEARNE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014

Interfund Transfers at August 31, 2014 consisted of the following:

Fund	Transfer In	Transfer Out
Major Funds:		
<u>General Fund:</u>	\$ -	\$ 252,268
Athletics	82,350	
School Lunch	82,600	
Total General Fund	\$ 164,950	\$ 252,268
 <u>Special Revenue Funds:</u>		
Special Revenue Funds	\$ 87,318	\$ -
Total Special Revenue Funds	\$ 87,318	\$ -
 TOTAL	 \$ 252,268	 \$ 252,268

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2014, were as follows:

	<u>Property</u> <u>Taxes, net</u>	<u>Other</u> <u>Governments</u>	<u>Due From</u> <u>Other Funds</u>	<u>Other</u>	<u>Total</u> <u>Receivables</u>
Governmental Activities:					
General Fund	\$ 470,446	\$ 44,906	\$ 544,486	\$ 1,809	\$ 1,061,647
Other Funds	103,743	616,384			\$ 720,127
Total - Governmental Activities	\$ 574,189	\$ 661,290	\$ 544,486	\$ 1,809	\$ 1,781,774

Amounts not scheduled for
collection during the subsequent
year

\$ -	\$ -	\$ -	\$ -	\$ -
------	------	------	------	------

	<u>Accounts</u>	<u>Salaries and</u> <u>Benefits</u>	<u>Due to</u> <u>Other Funds</u>	<u>Other</u> <u>Govts</u>	<u>Total</u> <u>Payables</u>
Governmental Activities:					
General Fund	\$ 26,990	\$ 268,432	\$ -	\$ 4,070	\$ 299,492
Other Funds	1,604	-	544,486		\$ 546,090
Total - Governmental Activities	\$ 28,594	\$ 268,432	\$ 544,486	\$ 4,070	\$ 845,582

Amounts not scheduled for
collection during the subsequent
year

\$ -	\$ -	\$ -	\$ -	\$ -
------	------	------	------	------

HEARNE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014

F. CAPITAL ASSET ACTIVITY

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

	Beginning Balances	Additions	Disposals	Ending Balances
Governmental activities:				
Land and Improvements	\$ 1,045,260			\$ 1,045,260
Buildings and Improvements	19,858,737	-	-	19,858,737
Equipment & Vehicles	2,826,064	134,514	471,740	2,488,838
Totals at Historic Costs	23,730,061	134,514	471,740	23,392,835
Less Accumulated Depreciation for:				
Land Improvements	(53,839)	(10,782)	-	(64,621)
Buildings and Improvements	(3,495,525)	(488,197)	-	(3,983,722)
Furniture and Equipment	(2,247,696)	(186,198)	456,745	(1,977,149)
Total Accumulated Depreciation	(5,797,060)	(685,177)	456,745	(6,025,492)
Governmental Activities Capital Assets, Net	\$ 17,933,001	\$ (550,663)	\$ 928,485	\$ 17,367,343

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 354,429
Instructional Resources and Media Services	10,938
Curriculum Development	11,707
School Leadership	8,322
Guidance, Counseling & Evaluation Services	3,637
Health Services	4,992
Student (Pupil) Transportation	91,031
Food Services	42,523
Cocurricular/Extracurricular Activities	78,161
General Administration	3,222
Facilities Maintenance and Operations	76,215
Data Processing Services	-
Total Depreciation Expense	<u>\$ 685,177</u>

HEARNE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014

G. BONDS AND LONG-TERM NOTES PAYABLE

Bond and loan indebtedness of the District is reflected in the General Long-Term Debt Account Group. Current requirements for principal and interest expenditures are accounted for in the General and Debt Service Funds.

A summary of changes in general long-term debt for the year ended August 31, 2014 is as follows:

	Interest Rate Payable	Original Issue	Interest Current Year	Payable Amounts Outstanding 9/1/2013	Issued	Retired	Outstanding 8/31/2014
<u>Governmental Activities: Bonds</u>							
Unlimited Tax School Building Bond Series - 2005	3.00%	\$ 13,899,997	\$ 492,982	\$ 11,550,000		\$ (10,005,000)	\$ 1,545,000
Refunding Bond Series - 2014	3.59%	9,160,000		-	9,160,000	-	9,160,000
Premium on refunding bonds				-	762,569	-	762,569
							-
Total Governmental Activities				\$ 11,550,000	\$ 9,922,569	\$ (10,005,000)	\$ 11,467,569

On July 22, 2014, The District refunded portions of the Bond Series 2005. The refunding issue achieved a total present value savings equal to 12.007% of the \$9,530,000 refunded amount. Average annual savings will be \$88,795 from 2015 through 2030. Total debt service savings through life of the refunding issue will be \$1,420,723. Due to the decrease in the bond payment, the Interest and Sinking tax rate may be adjusted accordingly.

For the year ended, August 31, 2014, the District was in compliance with all significant covenants and restrictions that are contained in the various bond indentures.

H. DEBT SERVICE REQUIREMENTS-BONDS AND NOTES PAYABLE

Debt service requirements for bonds and maintenance tax note are as follows:

	Governmental Activities		
<u>Year Ending August 31,</u>	Principal	Interest	Total
2015	\$ 530,000	\$ 350,863	\$ 880,863
2016	545,000	315,019	\$ 860,019
2017	565,000	312,284	\$ 877,284
2018-2022	3,045,000	1,342,925	\$ 4,387,925
2023-2027	3,540,000	846,700	\$ 4,386,700
2028-2032	2,480,000	151,400	\$ 2,631,400
Totals	\$ 10,705,000	\$ 3,319,191	\$ 14,024,191

HEARNE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014

I. ACCUMULATED UNPAID LOCAL BENEFITS

Upon retirement or death of certain employees, the District pays any accumulated local leave (up to thirty days) in lump cash payments to such employee or his/her estate. A summary of changes in the accumulated local leave liability follows:

	Local Leave
Septemeber 1, 2013	\$ 24,775
Addition - New Entrants and Salary Increments	16,800
Deletions - Payments to Participants & Users	<u>(37,825)</u>
 August 31, 2014	 <u>\$ 3,750</u>

J. DEFINED BENEFIT PENSION PLAN

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

Funding Policy. Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% for fiscal years 2012, 2013 and 2014 a state contribution rate of 6.644% for fiscal for years 2012, 2013, and 2014. In certain instances the reporting district is required to make all or a portion of the state's 6.644% contribution. State contributions to TRS made on behalf of Hearne Independent School District's employees for the years ended August 31, 2012, 2013 and 2014 were \$335,882, \$370,235, and \$381,616 respectively. Hearne Independent School District paid additional state contributions for the years ended August 31, 2012, 2013, and 2014 in the amount of \$35,872, \$23,393, and \$23,633, respectively, on the portion of the employees' salaries that exceeded the statutory minimum.

K. HEALTH CARE COVERAGE

The District participates in TRS Active Care, which provides several health insurance choices for all qualifying employees. The District pays \$150.00 per month per employee to either plan and employees, at their option, authorize payroll withholdings to pay premiums for dependents. All contributions are paid to a licensed insurer. The plans are authorized by Article 3.51-2, Texas Insurance Code and were documented by contractual agreement.

HEARNE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014

The contracts between Hearne Independent School District and the licensed insurers are renewable September 1 and the terms of coverage and premiums costs are included in the contractual provisions.

L. SCHOOL DISTRICT RETIREE HEALTH PLAN

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

Funding Policy. Contribution requirement are not actually determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203 and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2012, 2013 and 2014 per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than .025% or greater than .75% of the salary of each active employee of the public school. For the years ended August 31, 2012, 2013, and 2014, the State's contributions to TRS-Care were \$61,740, \$65,504, \$62,128, respectively, the active member contributions were \$36,606, \$38,683, \$39,220, respectively, and the school district's contributions were \$31,939, \$32,731, \$33,474, respectively, which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care receives retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2012, 2013, and 2014, the subsidy payments received by TRS-Care on behalf of the District were \$14,221, \$15,250, \$15,988, respectively. These payments are recorded as equaled revenues and expenditures in the governmental funds financial statements of the District.

HEARNE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014

M. CHANGES IN LONG-TERM LIABILITIES

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

	<u>Beginning</u>			<u>Ending</u>	<u>Due Within</u>
	<u>Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u>	<u>One Year</u>
Governmental Activities:					
Unpaid Local Benefits	\$ 24,775	\$ 16,800	\$ (37,825)	\$ 3,750	\$ 3,750
Bonds and Notes Payable:					
General Obligation Bonds	\$11,550,000	\$ -	\$ (10,005,000)	\$ 1,545,000	\$ 495,000
Refunding Bonds	-	9,160,000	-	\$ 9,160,000	35,000
Total Bonds and Notes Payable	\$11,550,000	\$ 9,160,000	\$ (10,005,000)	\$10,705,000	\$ 530,000
Total Governmental Activities					
Long-term Liabilities	\$11,574,775	\$ 9,176,800	\$ (10,042,825)	\$10,708,750	\$ 533,750

N. DEFERRED REVENUE

Deferred revenue at year-end consisted of the following:

	<u>General</u>	<u>Debt</u>	
	<u>Fund</u>	<u>Service</u>	<u>Total</u>
Property Taxes	\$470,446	\$103,743	\$574,189
State Funding	14,763	-	14,763
Total Deferred Revenue	\$ 14,763	\$103,743	\$588,952

O. DUE FROM STATE AGENCIES

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2014, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

	<u>State</u>	<u>Federal</u>		
<u>Fund</u>	<u>Entitlements</u>	<u>Grants</u>	<u>ESC</u>	<u>Total</u>
General Fund	\$ 44,906			\$ 44,906
Other Funds	2,628	227,953	385,803	616,384
Total	\$ 47,534	\$ 227,953	\$ 385,803	\$ 661,290

HEARNE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2014

P. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	<u>General</u>	<u>Capital</u>		
	<u>Fund</u>	<u>Projects</u>	<u>Other</u>	<u>Total</u>
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	
Property Taxes	\$ 4,497,980	\$ -	\$ 987,362	\$ 5,485,342
Penalties, Interest and Other				
Tax-related Income	90,998	-	21,026	112,024
Investment Income	24,419	260	400	25,079
Food Sales	37,291	-	-	37,291
Co-curricular Student Activities	41,327	-	-	41,327
Enterprising Services	105,459	-	-	105,459
Other	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Total	\$ 4,797,474	\$ 260	\$ 1,008,788	\$ 5,806,522

Q. LITIGATION

The district has no significant pending litigation.

R. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District participates in a shared service arrangement for the improvement of the education of limited English proficient children funded under ESEA Title III, Part A, English Language Acquisition and Language Enhancement. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region VI, nor does the District have a new equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for part of the financial activities of the shared services arrangement. Region VI is reporting \$5,050 as expenditures incurred on behalf of Hearne Independent School District.

The District participates in a shared services arrangement for the education of students with special needs. The shared services arrangement is funded through TEA with Franklin Independent School District acting as fiscal agent. Franklin ISD is reporting \$433,028 as expenditures for special education on Hearne Independent School District acting as fiscal agent. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the District have a new equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent is responsible for part of the shared services arrangement.

S. RISK MANAGEMENT

State law allows school districts to retain risk through its own risk management program (i.e., a self-insurance program), insure through a commercial carrier, or insure through a public entity risk pool. The District has insurable risks on various areas, including property, casualty, automobile, comprehensive liability, and workmen's compensation. During 2014, the District obtained insurance against all risks through commercial carriers. Management believes the amount and types of coverage are adequate to protect the District from losses that could reasonably be expected to occur.

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HEARNE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 4,455,000	\$ 4,514,000	\$ 4,947,075	\$ 433,075
5800	State Program Revenues	4,361,000	4,360,000	3,625,834	(734,166)
5900	Federal Program Revenues	-	538,000	563,709	25,709
5020	Total Revenues	8,816,000	9,412,000	9,136,618	(275,382)
EXPENDITURES:					
Current:					
0011	Instruction	5,085,300	5,003,880	4,939,411	64,469
0012	Instructional Resources and Media Services	46,250	64,200	64,183	17
0013	Curriculum and Instructional Staff Development	8,500	8,500	3,571	4,929
0021	Instructional Leadership	49,900	58,755	59,729	(974)
0023	School Leadership	565,800	578,560	574,074	4,486
0031	Guidance, Counseling and Evaluation Services	94,125	75,930	75,928	2
0033	Health Services	50,950	45,950	44,845	1,105
0034	Student (Pupil) Transportation	421,200	391,200	371,978	19,222
0035	Food Services	-	657,600	613,570	44,030
0036	Extracurricular Activities	227,200	310,550	280,475	30,075
0041	General Administration	461,200	451,200	440,654	10,546
0051	Facilities Maintenance and Operations	1,202,900	1,286,900	1,296,043	(9,143)
0052	Security and Monitoring Services	34,100	54,100	47,899	6,201
0053	Data Processing Services	163,825	171,125	162,347	8,778
Capital Outlay:					
0081	Facilities Acquisition and Construction	75,000	56,450	-	56,450
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of	228,000	228,000	221,283	6,717
0099	Other Intergovernmental Charges	101,750	134,050	134,031	19
6030	Total Expenditures	8,816,000	9,576,950	9,330,021	246,929
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(164,950)	(193,403)	(28,453)
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	200,000	329,900	164,950	(164,950)
8911	Transfers Out (Use)	164,950	(164,950)	(252,268)	(87,318)
7080	Total Other Financing Sources (Uses)	364,950	164,950	(87,318)	(252,268)
1200	Net Change in Fund Balances	364,950	-	(280,721)	(280,721)
0100	Fund Balance - September 1 (Beginning)	5,631,410	5,631,410	5,631,410	-
3000	Fund Balance - August 31 (Ending)	\$ 5,996,360	\$ 5,631,410	\$ 5,350,689	\$ (280,721)

HEARNE INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2014

Data Control Codes		211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	242 Summer Feeding Program	244 Career and Technical - Basic Grant
ASSETS					
1110	Cash and Cash Equivalents	\$ 130	\$ -	\$ -	\$ -
1120	Investments - Current	4,070	-	25,420	-
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes (Credit)	-	-	-	-
1240	Receivables from Other Governments	180,882	-	-	8,721
1000	Total Assets	<u>\$ 185,082</u>	<u>\$ -</u>	<u>\$ 25,420</u>	<u>\$ 8,721</u>
LIABILITIES					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ -
2170	Due to Other Funds	181,012	-	-	8,721
2180	Due to Other Governments	4,070	-	-	-
2000	Total Liabilities	<u>185,082</u>	<u>-</u>	<u>-</u>	<u>8,721</u>
DEFERRED INFLOWS OF RESOURCES					
2601	Unavailable Revenue - Property Taxes	-	-	-	-
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted Fund Balance:					
3480	Retirement of Long-Term Debt	-	-	-	-
3600	Unassigned Fund Balance	-	-	25,420	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>25,420</u>	<u>-</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 185,082</u>	<u>\$ -</u>	<u>\$ 25,420</u>	<u>\$ 8,721</u>

255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	289 Teacher Incentive Fund Grant	404 Student Success Initiative	410 State Textbook Fund	427 DATE Grant	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds
\$ -	\$ 784	\$ -	\$ -	\$ -	\$ -	\$ 17,206	\$ 18,120
-	-	-	-	367	-	-	29,857
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
36,514	1,836	385,803	2,628	-	-	-	616,384
<u>\$ 36,514</u>	<u>\$ 2,620</u>	<u>\$ 385,803</u>	<u>\$ 2,628</u>	<u>\$ 367</u>	<u>\$ -</u>	<u>\$ 17,206</u>	<u>\$ 664,361</u>
\$ -	\$ 785	\$ 819	\$ -	\$ -	\$ -	\$ -	\$ 1,604
36,514	1,835	313,776	2,628	-	-	-	544,486
-	-	-	-	-	-	-	4,070
36,514	2,620	314,595	2,628	-	-	-	550,160
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	71,208	-	367	-	17,206	114,201
-	-	71,208	-	367	-	17,206	114,201
<u>\$ 36,514</u>	<u>\$ 2,620</u>	<u>\$ 385,803</u>	<u>\$ 2,628</u>	<u>\$ 367</u>	<u>\$ -</u>	<u>\$ 17,206</u>	<u>\$ 664,361</u>

HEARNE INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
AUGUST 31, 2014

Data Control Codes		599 Debt Service	Total Nonmajor Governmental Funds
ASSETS			
1110	Cash and Cash Equivalents	\$ 261,563	\$ 279,683
1120	Investments - Current	87,141	116,998
1220	Property Taxes - Delinquent	148,205	148,205
1230	Allowance for Uncollectible Taxes (Credit)	(44,462)	(44,462)
1240	Receivables from Other Governments	-	616,384
1000	Total Assets	<u>\$ 452,447</u>	<u>\$ 1,116,808</u>
LIABILITIES			
2110	Accounts Payable	\$ -	\$ 1,604
2170	Due to Other Funds	-	544,486
2180	Due to Other Governments	-	4,070
2000	Total Liabilities	<u>-</u>	<u>550,160</u>
DEFERRED INFLOWS OF RESOURCES			
2601	Unavailable Revenue - Property Taxes	103,743	103,743
2600	Total Deferred Inflows of Resources	<u>103,743</u>	<u>103,743</u>
FUND BALANCES			
Restricted Fund Balance:			
3480	Retirement of Long-Term Debt	348,704	348,704
3600	Unassigned Fund Balance	-	114,201
3000	Total Fund Balances	<u>348,704</u>	<u>462,905</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 452,447</u>	<u>\$ 1,116,808</u>

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HEARNE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes		211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	242 Summer Feeding Program	244 Career and Technical - Basic Grant
REVENUES:					
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800	State Program Revenues	-	-	-	-
5900	Federal Program Revenues	568,551	5,050	12,184	18,386
5020	Total Revenues	568,551	5,050	12,184	18,386
EXPENDITURES:					
Current:					
0011	Instruction	406,588	5,050	-	16,888
0013	Curriculum and Instructional Staff Development	9,490	-	-	1,498
0021	Instructional Leadership	62,018	-	-	-
0023	School Leadership	-	-	-	-
0031	Guidance, Counseling and Evaluation Services	4,539	-	-	-
0033	Health Services	27,901	-	-	-
0035	Food Services	-	-	10,017	-
0036	Extracurricular Activities	-	-	-	-
0053	Data Processing Services	57,258	-	-	-
0061	Community Services	757	-	-	-
Debt Service:					
0071	Principal on Long Term Debt	-	-	-	-
0072	Interest on Long Term Debt	-	-	-	-
6030	Total Expenditures	568,551	5,050	10,017	18,386
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	2,167	-
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	-	-	-
1200	Net Change in Fund Balance	-	-	2,167	-
0100	Fund Balance - September 1 (Beginning)	-	-	23,253	-
3000	Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ 25,420	\$ -

255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	289 Teacher Incentive Fund Grant	404 Student Success Initiative	410 State Textbook Fund	427 DATE Grant	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 39,363	\$ 39,363
-	-	-	-	45,421	23,553	-	68,974
97,321	6,384	431,389	-	-	-	-	1,139,265
97,321	6,384	431,389	-	45,421	23,553	39,363	1,247,602
81,411	5,932	371,961	-	46,208	23,553	-	957,591
15,910	452	71,530	-	-	-	-	98,880
-	-	-	-	-	-	-	62,018
-	-	4,008	-	-	-	-	4,008
-	-	-	-	-	-	-	4,539
-	-	-	-	-	-	-	27,901
-	-	-	-	-	-	-	10,017
-	-	-	-	-	-	37,078	37,078
-	-	-	-	-	-	-	57,258
-	-	-	-	-	-	-	757
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
97,321	6,384	447,499	-	46,208	23,553	37,078	1,260,047
-	-	(16,110)	-	(787)	-	2,285	(12,445)
-	-	87,318	-	-	-	-	87,318
-	-	71,208	-	(787)	-	2,285	74,873
-	-	-	-	1,154	-	14,921	39,328
\$ -	\$ -	\$ 71,208	\$ -	\$ 367	\$ -	\$ 17,206	\$ 114,201

HEARNE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes	599 Debt Service	Total Nonmajor Governmental Funds
REVENUES:		
5700 Total Local and Intermediate Sources	\$ 1,062,047	\$ 1,101,410
5800 State Program Revenues	-	68,974
5900 Federal Program Revenues	-	1,139,265
5020 Total Revenues	<u>1,062,047</u>	<u>2,309,649</u>
EXPENDITURES:		
Current:		
0011 Instruction	-	957,591
0013 Curriculum and Instructional Staff Development	-	98,880
0021 Instructional Leadership	-	62,018
0023 School Leadership	-	4,008
0031 Guidance, Counseling and Evaluation Services	-	4,539
0033 Health Services	-	27,901
0035 Food Services	-	10,017
0036 Extracurricular Activities	-	37,078
0053 Data Processing Services	-	57,258
0061 Community Services	-	757
Debt Service:		
0071 Principal on Long Term Debt	470,668	470,668
0072 Interest on Long Term Debt	492,982	492,982
6030 Total Expenditures	<u>963,650</u>	<u>2,223,697</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	98,397	85,952
OTHER FINANCING SOURCES (USES):		
7915 Transfers In	-	87,318
1200 Net Change in Fund Balance	98,397	173,270
0100 Fund Balance - September 1 (Beginning)	<u>250,307</u>	<u>289,635</u>
3000 Fund Balance - August 31 (Ending)	<u><u>\$ 348,704</u></u>	<u><u>\$ 462,905</u></u>

HEARNE INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED AUGUST 31, 2014

	BALANCE SEPTEMBER 1 2013	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2014
STUDENT ACTIVITY ACCOUNT				
Assets:				
Cash and Temporary Investments	\$ 32,922	\$ 75,159	\$ 85,786	\$ 22,295
Liabilities:				
Due to Student Groups	\$ 32,922	\$ 75,159	\$ 85,786	\$ 22,295
TOTAL AGENCY FUNDS				
Assets:				
Cash and Temporary Investments	\$ 32,922	\$ 75,159	\$ 85,786	\$ 22,295
Liabilities:				
Due to Student Groups	\$ 32,922	\$ 75,159	\$ 85,786	\$ 22,295

HEARNE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2014

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2005 and prior years	Various	Various	\$ Various
2006	1.500000	0.280000	300,349,904
2007	1.370000	0.240000	306,902,317
2008	1.040000	0.300000	282,105,146
2009	1.040000	0.240000	342,056,706
2010	1.040000	0.290000	307,802,497
2011	1.040000	0.280000	335,362,821
2012	1.040000	0.280000	369,100,888
2013	1.040000	0.230000	444,090,524
2014 (School year under audit)	1.040000	0.230000	458,969,253
1000 TOTALS			

(10) Beginning Balance 9/1/2013	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2014
\$ 210,033	\$ -	\$ 2,056	\$ 451	\$ (14,570)	\$ 192,956
23,593	-	968	212	(1,650)	20,763
23,643	-	2,936	644	(1,651)	18,412
24,442	-	4,275	939	(1,109)	18,119
35,136	-	5,803	1,274	(939)	27,120
56,372	-	14,911	3,273	(595)	37,593
95,083	-	29,339	6,440	(46)	59,258
144,568	-	40,922	8,983	(15)	94,648
209,333	-	75,163	16,499	(100)	117,571
-	5,680,556	4,520,695	992,348	66,318	233,831
<u>\$ 822,203</u>	<u>\$ 5,680,556</u>	<u>\$ 4,697,068</u>	<u>\$ 1,031,063</u>	<u>\$ 45,643</u>	<u>\$ 820,271</u>

HEARNE INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2015-2016
 GENERAL AND SPECIAL REVENUE FUNDS
 AUGUST 31, 2014

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

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collections	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 221,024	\$ 117,407	\$ -	\$ -	338,431
6149	Leave for Separating Employees in Fn 41 & 53	-	-	-	-	-	-	-
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	11,266	-	-	-	11,266
6212	Audit Services	-	-	-	20,000	-	-	20,000
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	134,031	-	-	-	-	134,031
6214	Lobbying	-	-	-	-	-	-	-
621X	Other Professional Services	-	-	9,746	4,153	-	-	13,899
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	-	-	-	-	-	-	-
6240	Contr. Maint. and Repair	-	-	-	237	14,003	-	14,240
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	-	-	-	-	-
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	-	-	2,710	11,125	-	-	13,835
6410	Travel, Subsistence, Stipends	-	-	2,279	3,245	-	-	5,524
6420	Ins. and Bonding Costs	5,928	-	-	671	-	-	6,599
6430	Election Costs	1,733	-	-	-	-	-	1,733
6490	Miscellaneous Operating	7,472	-	4,367	3,289	-	-	15,128
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	\$ 15,133	\$ 134,031	\$ 251,392	\$ 160,127	\$ 14,003	\$ -	\$ 574,686

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 10,552,991

LESS: Deductions of Unallowable Costs

FISCAL YEAR

Total Capital Outlay (6600)	(10) \$ 133,737
Total Debt & Lease(6500)	(11) -
Plant Maintenance (Function 51, 6100-6400)	(12) 1,264,187
Food (Function 35, 6341 and 6499)	(13) 344,810
Stipends (6413)	(14) -
Column 4 (above) - Total Indirect Cost	160,127

SubTotal:

1,902,860

Net Allowed Direct Cost

\$ 8,650,131

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15) \$ 19,858,737
Historical Cost of Building over 50 years old	(16) \$ -
Amount of Federal Money in Building Cost (Net of #16)	(17) \$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18) \$ 2,488,837
Historical Cost of Furniture & Equipment over 16 years old	(19) \$ -
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20) \$ -

(8) NOTE A: No Function 53 expenditures are included in this report on administrative costs.

\$134,031 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

HEARNE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 38,000	\$ 38,000	\$ 37,291	\$ (709)
5800	State Program Revenues	5,000	5,000	3,689	(1,311)
5900	Federal Program Revenues	532,000	532,000	529,405	(2,595)
5020	Total Revenues	575,000	575,000	570,385	(4,615)
EXPENDITURES:					
0035	Food Services	657,600	657,600	606,097	51,503
6030	Total Expenditures	657,600	657,600	606,097	51,503
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(82,600)	(82,600)	(35,712)	46,888
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	82,600	82,600	82,600	-
1200	Net Change in Fund Balances	-	-	46,888	46,888
0100	Fund Balance - September 1 (Beginning)	161,067	161,067	161,067	-
3000	Fund Balance - August 31 (Ending)	\$ 161,067	\$ 161,067	\$ 207,955	\$ 46,888

HEARNE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 967,983	\$ 967,983	\$ 1,062,047	\$ 94,064
5020	Total Revenues	967,983	967,983	1,062,047	94,064
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	967,983	475,000	470,668	4,332
0072	Interest on Long Term Debt	-	492,983	492,982	1
6030	Total Expenditures	967,983	967,983	963,650	4,333
1200	Net Change in Fund Balances	-	-	98,397	98,397
0100	Fund Balance - September 1 (Beginning)	250,307	250,307	250,307	-
3000	Fund Balance - August 31 (Ending)	\$ 250,307	\$ 250,307	\$ 348,704	\$ 98,397

Federal Awards Section

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**KIMMY JACKSON
& ASSOCIATES, L.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standard* 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 Hearne Independent School District as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise Hearne Independent School District's basic financial statements, and have issued our report thereon dated January 20, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Kimmy Jackson & Associates, LLC

Temple, TX
January 20, 2015



**KIMMY JACKSON
& ASSOCIATES, L.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS

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

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

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items. Our opinion on each major federal program is not modified with respect to these matters.

Hearne Independent School District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs, if applicable. Hearne Independent School

District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Kimmy Jackson & Associates, LLC

Temple, TX
January 20, 2015

**HEARNE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2014**

I. Summary of Auditors' Results

A. Financial Statements

Type of auditor's report issued: Unqualified

Internal Control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are Not considered to be material weaknesses? ☐ Yes ☒ No None reported
- Noncompliance material to financial statements noted? ☐ Yes ☒ No

B. Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) that are not Considered to be material weakness(es)? ☐ Yes ☒ No None reported

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

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

Identification of Major Programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553	School Breakfast Program
10.555	National School Lunch Program

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

Auditee qualified as low risk auditee? ☒ Yes ☐ No

II. Financial Statement Findings

NONE

III. Federal Award Findings and Questioned Costs

<u>Program</u>	<u>Finding/ Noncompliance</u>	<u>Questioned Costs</u>
	NONE	

**HEARNE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF PRIOR AUDIT FINDINGS
AND CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2013**

Prior Year Financial Statement Findings:

Significant Deficiencies:

2013-1 Untimely Reconciliations

Conditions: Reconciliations for Finance Clearing Cash Account were not completed on a timely basis, and not completed until December 2013.

Criteria: These reconciliations are a vital component of the internal control procedures and must be completed on a monthly basis to ensure accountability.

Cause: The Finance Manager failed to complete these reconciliations on a monthly basis.

Effect: Failure to have these reconciliations completed monthly decreases the accountability of any interim financial statements for the Board Members and creates a breakdown in the internal controls.

Recommendation: These reconciliations must be completed monthly by someone with another person's supervision and approval.

Views of Responsible Officials and planned Corrective Actions: The District is in the process of providing training to key personnel. It will also set policies to require routine reconciliations to be made on a monthly basis.

Responsible Official to Implement Corrective Actions: Joy Toney - Superintendent

2013-2 Purchase Order Approval Procedures Not Always Followed

Conditions: Our audit tests indicated that purchase orders are too often prepared or processed after items have already been ordered or received.

Cause: Occasional disregard to the District's policy of having purchase order approval before goods are ordered.

Effect: This practice defeats the control a purchase order system is intended to provide.

Recommendation: To help monitor the volume of purchases due to the budget constraints and ensure that purchases are initiated with proper approval, we recommend that purchase orders be prepared and approved before items are ordered or received based on current District policies.

Views of Responsible Officials and Planned Correct Actions: The District will reinforce compliance with District purchasing policies.

Responsible Official to Implement Corrective Actions: Joy Toney – Superintendent

2013-3 Excessive Journal Entries

Conditions: Year-end trial balances have not been adequately adjusted to meet minimum reporting requirements, under generally accepted accounting principles.

Criteria: District prepared year-end trial balances should be adjusted for normal accrual fluxions especially in the areas of accounts receivable and accounts payable. The District should not wait until after the audit to make these routine entries, some of which can be made on a monthly basis.

Cause: Turnover of personnel and a lack of training, especially as it relates to identifying and recording adjustments.

Effect: Year-end and interim financial statements provided to the Board lack some accrual adjustments that could be significant.

Recommendation: Adequate training should be provided to the appropriate District personnel so that they can identify and record accrual and other routine adjustments to produce accurate and complete financial statements.

View of Responsible Officials and Planned Corrective Actions: The District is in the process of providing training to key personnel.

Responsible Official to Implement Corrective Actions: Joy Toney - Superintendent

III. Federal Awards Findings and Questioned Costs

- None.

HEARNE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2014

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Education Service Center Region XIII</u>			
	84.374A	S374A110176-13	\$ 447,499
Total Education Service Center Region XIII			\$ 447,499
<u>Education Service Center Region VI</u>			
	84.011A	14615001236950	\$ 5,050
	84.365A	14671001236950	6,384
Total Education Service Center Region VI			\$ 11,434
<u>Passed Through State Department of Education</u>			
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	S010A130043	\$ 568,551
Career and Technical - Basic Grant	84.048	V048A130043	18,386
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	S367A130041	97,321
Total Passed Through State Department of Education			\$ 684,258
TOTAL DEPARTMENT OF EDUCATION			\$ 1,143,191
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553		\$ 153,507
*National School Lunch Program - Cash Assistance	10.555		348,546
*National School Lunch Prog. - Non-Cash Assistance	10.555		27,352
Total CFDA Number 10.555			375,898
Total Child Nutrition Cluster			529,405
Total Passed Through the State Department of Agriculture			\$ 529,405
TOTAL DEPARTMENT OF AGRICULTURE			\$ 529,405
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,672,596

*Clustered Programs

**HEARNE INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2014**

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

The modified accrual basis of accounting is used for the Governmental Fund types and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Supplement.
4. CFDA number 10.550 pertained to food commodities distributed by USDA under the following categorical programs (as applicable): the National School Lunch Program (CFDA 10.555), the Child and Adult Care Food Program (CFDA 10.558), the Summer Food Service Program (CFDA 10.559), the Commodity Supplemental Food Program (CFDA 10.565). USDA deleted this number (10.550) from the CFDA on May 6, 2008. The audit covering Cameron ISD will therefore identify commodity assistance by the CFDA numbers of the programs under which the USDA donated the commodities.

SCHOOLS FIRST QUESTIONNAIRE

Hearne Independent School District

Fiscal Year 2014

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unqualified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	Total accumulated accretion on capital appreciation bonds included in government-wide financial statements at fiscal year end.	0