

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

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CERTIFICATE OF BOARD

Itasca Independent School District
Name of School District

Hill
County

109-907
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) _____ approved _____ disapproved for the year ended August 31, 2014, at a meeting of the Board of Trustees of such school district on the 15th day of December 2014.

Kendra Markwardt
Signature of Board Secretary

Brian Bassett
Signature of Board President

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

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Itasca Independent School District

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Itasca Independent School District, as of August 31, 2014, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note I to the financial statements, in 2014 the District adopted new accounting guidance, GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5 - 9 and 34 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 Itasca Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements and required TEA schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and required TEA schedules 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 and required TEA schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2014, on our consideration of Itasca Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Itasca Independent School District's internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Hillsboro, Texas
December 8, 2014

**ITASCA INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2014**

Our discussion and analysis of Itasca Independent School District's financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2014. Please read it in conjunction with the District's financial statements, which begin on page 10.

FINANCIAL HIGHLIGHTS

- The assets of the District exceeded its liabilities at the close of the most recent fiscal year by \$7,715,874 (*net position*). Of this amount, \$3,307,567 (*unrestricted net position*) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total net position decreased by \$562,070.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,182,868, a decrease of \$362,727 in comparison with the prior year. This decrease is primarily due to a decrease in revenue from local and intermediate sources as well as increased instruction, school leadership, guidance, counseling and evaluation services, extracurricular activities and facilities maintenance and operations expenditures .
- At the end of the current fiscal year, unassigned fund balance for the General Fund was, \$1,297,078 or 20.05% total General Fund expenditures.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 and 11). These provide information about the activities of the District as a whole and present a long-term view of the District's property and obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the government.

The notes to the financial statements (starting on page 21) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. The sections labeled TEA Required Schedules and Compliance 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 Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 10. Its primary objective 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 while the Statement of Activities includes all the revenue and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The District's revenue is 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 revenue), and general revenue provided by the taxpayers or by TEA in equalization funding processes (general revenue). 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 facilities.

In the Statement of Net Position and the Statement of Activities, the District has the following activity:

Governmental Activities – The District's services are reported here, including instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The Fund financial statements begin on page 12 and provide detailed information about the most significant funds – not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under ESEA Title I from the U. S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District incorporates two kinds of funds – governmental funds and proprietary funds.

Governmental Funds – The District reports its services 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 they 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 governmental fund financial statements.

Proprietary Funds – The District's proprietary fund is classified as an internal service fund which is used to report activities that provide supplies and services for the District's other programs and activities—such as the District's Workers' Compensation Self-Insurance Fund

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 19. We exclude these resources from the District's other financial statements because the District cannot use them to support 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

The following analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District's governmental activities.

Net position of the District's governmental activities decreased from \$8,675,041 to \$7,715,874. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$3,307,567 and \$3,959,874 at August 31, 2014 and 2013, respectively.

TABLE 1
ITASCA INDEPENDENT SCHOOL DISTRICT
NET POSITION

	Governmental Activities	
	2014	2013
Current and other assets	\$ 4,096,010	\$ 4,335,193
Capital Assets	<u>12,071,345</u>	<u>12,521,280</u>
Total Assets	<u>16,167,355</u>	<u>16,856,473</u>
Long-term liabilities	7,729,476	7,948,687
Other liabilities	<u>722,005</u>	<u>232,745</u>
Total liabilities	<u>8,451,481</u>	<u>8,181,432</u>
Net position:		
Net investment in capital assets	4,341,869	4,573,237
Restricted	66,438	141,930
Unrestricted	<u>3,307,567</u>	<u>3,959,874</u>
Total net position	<u>\$ 7,715,874</u>	<u>\$ 8,675,041</u>

TABLE 2
ITASCA INDEPENDENT SCHOOL DISTRICT
CHANGES IN NET POSITION

	Governmental Activities	
	2014	2013
REVENUES		
Program revenue:		
Charges for services	\$ 108,838	\$ 132,135
Operating grants and contributions	1,172,927	1,033,753
General revenues:		
Maintenance and operations taxes	1,933,962	2,055,038
Debt service taxes	474,097	499,733
Grants and contributions not restricted	4,003,329	4,188,284
Investment earnings	1,741	6,055
Miscellaneous	38,992	37,590
(Loss) on sale of property	(14,262)	-
Total Revenue	<u>7,719,624</u>	<u>7,952,588</u>
EXPENSES		
Instruction	4,317,034	4,130,809
Instructional resources and media services	224,703	226,535
Curriculum and Instructional staff development	47,694	61,432
Instructional leadership	107,262	95,023
School leadership	393,640	372,969
Guidance, counseling and evaluation services	145,971	90,281
Health services	58,216	57,513
Student (pupil) transportation	184,098	167,185
Food services	463,343	449,517
Co-curricular/extra curricular activities	359,297	286,049
General administration	347,685	357,196
Plant maintenance and operations	918,631	805,928
Security and monitoring services	18,214	11,267
Data processing services	90,102	92,805
Community services	713	607
Debt service - interest on long-term debt	326,215	338,793
Debt service - bond issuance costs	1,207	856
Payments to fiscal agents/member districts of SSA	201,074	205,002
Payments to Juvenile Justice Alternative Ed. Program	5,680	2,607
Other intergovernmental charges	70,915	66,738
Total Expenses	<u>8,281,694</u>	<u>7,819,112</u>
CHANGE IN NET POSITION	(562,070)	133,476
NET POSITION, BEGINNING	<u>8,675,041</u>	<u>8,541,565</u>
PRIOR PERIOD ADJUSTMENT	<u>(397,097)</u>	<u>-</u>
NET POSITION, ENDING	<u>\$ 7,715,874</u>	<u>\$ 8,675,041</u>

Governmental activities decreased the District's net position by \$562,070. Revenues decreased due to a decrease in property tax revenue (\$146 thousand) and grants and contributions not restricted (\$185 thousand). For the most part, the increase in expenses was primarily due to increases in instruction, guidance, counseling and evaluation services, extracurricular activities and facilities, maintenance and operation expenses.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on pages 12) reported a combined fund balance of \$3,182,868, which is less than last year's total of \$3,829,005. Included in this year's total change in fund balance is a decrease of \$339,786 in the District's General Fund. The primary reason for the decrease in the General Fund is a result of the decrease of property tax revenue as well as increased instruction, school leadership, guidance, counseling and evaluation services, facilities maintenance and operations expenditures and transfers out.

Over the course of the year, the Board of Trustees amended the District's General Fund budget several times. The primary budget amendments for the year were to budget for increased expenditures in instruction, facilities maintenance and operations and capital outlay. The difference between the original and final budgeted expenditures was an increase of \$86,767.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the District had approximately \$19.1 million invested in a broad range of capital assets, including instructional facilities and equipment, transportation facilities and equipment, athletic facilities, and administrative and maintenance buildings and equipment. The District's major additions included flooring for the library and the purchase of 2 steamers for the District's cafeteria. Additional information on the District's capital assets can be found in Note II, page 27 – 28 of this report.

Debt

At year-end, the District had \$7.62 million in bonds outstanding versus \$7.84 million last year – a decrease of 3%. This decrease in debt resulted from the debt service payments of \$215,000. Additional information on the District's long-term debt can be found in Note II, pages 28 – 29 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal year 2014 budget and tax rates. One of these factors is the funding available through the state's funding mechanism as well as federal revenue. The District's enrollment is down for the 2014-2015 school year. There was a slight increase in appraised property values within the district which effects local tax revenue.

District facilities offer ample space for growth. The expenses for day to day operations are strained due to increased curriculum and state assessment requirements.

The District's budgetary General Fund balance for 2015 is expected to slightly decrease from that of 2014.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administration office, at 123 N. College Street, Itasca, Texas 76055.

BASIC FINANCIAL STATEMENTS

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

Data Control Codes		Governmental Activities
	ASSETS	
1110	Cash and cash equivalents	\$ 3,663,447
1220	Property taxes receivables (delinquent)	186,102
1230	Allowance for uncollectible taxes	(46,525)
1240	Due from other governments	291,452
1290	Other receivables (net)	1,534
	Capital assets:	
1510	Land	290,265
1520	Buildings and improvements, net	11,502,508
1530	Furniture and equipment, net	278,572
1000	Total assets	<u>16,167,355</u>
	LIABILITIES	
2110	Accounts payable	82,926
2140	Interest payable	13,410
2160	Accrued wages payable	136,224
2180	Due to other governments	440,287
2200	Accrued expenses	49,158
	Noncurrent liabilities:	
2501	Due within one year	225,000
2502	Due in more than one year	7,504,476
2000	Total liabilities	<u>8,451,481</u>
	NET POSITION	
3200	Net investment in capital assets	4,341,869
	Restricted for:	
3820	Federal and state programs	60,415
3850	Debt service	6,023
3900	Unrestricted	<u>3,307,567</u>
3000	Total net position	<u>\$ 7,715,874</u>

The accompanying notes are an integral part of this financial statement.

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

		Program Revenues			Net (Expenses) Revenue and Changes in Net Position
Data Control Codes	Functions/Programs	1	3	4	6
		Expenses	Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities
Primary government:					
Governmental activities:					
11	Instruction	\$ 4,317,034	\$ 8,635	\$ 618,188	\$(3,690,211)
12	Instructional resources and media services	224,703	-	3,440	(221,263)
13	Curriculum and staff development	47,694	-	25,239	(22,455)
21	Instructional leadership	107,262	-	14,664	(92,598)
23	School leadership	393,640	-	20,971	(372,669)
31	Guidance, counseling, and evaluation services	145,971	-	6,555	(139,416)
33	Health services	58,216	-	2,613	(55,603)
34	Student transportation	184,098	-	29,829	(154,269)
35	Food service	463,343	91,273	277,579	(94,491)
36	Extracurricular activities	359,297	8,930	8,233	(342,134)
41	General administration	347,685	-	13,795	(333,890)
51	Facilities maintenance and operations	918,631	-	21,643	(896,988)
52	Security and monitoring services	18,214	-	-	(18,214)
53	Data processing services	90,102	-	4,061	(86,041)
61	Community services	713	-	42	(671)
72	Interest on long-term debt	326,215	-	126,075	(200,140)
73	Bond issuance costs and fees	1,207	-	-	(1,207)
93	Payments related to shared services arrangements	201,074	-	-	(201,074)
95	Payments to Juvenile Justice Alternative			-	
	Education Programs	5,680	-	-	(5,680)
99	Other governmental changes	70,915	-	-	(70,915)
	[TP] Total primary government	\$ 8,281,694	\$ 108,838	\$ 1,172,927	(6,999,929)
	Data Control Codes				
General revenues:					
Taxes:					
MT	Property taxes, levied for general purposes				1,933,962
DT	Property taxes, levied for debt service				474,097
GC	Grants and contributions not restricted				4,003,329
IE	Investment earnings				1,741
MI	Miscellaneous				38,992
	(Loss) on sale of property				(14,262)
TR	Total general revenues and transfers				6,437,859
CN	Change in net position				(562,070)
NB	Net position, beginning				8,675,041
PA	Prior period adjustments				(397,097)
	NE Net position, ending				\$ 7,715,874

The accompanying notes are an integral part of this financial statement.

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

Data Control Codes		10		98 Total Governmental Funds
		<u>General</u>	<u>Other Governmental</u>	
ASSETS				
1110	Cash and cash equivalents	\$ 3,228,663	\$ 346,439	\$ 3,575,102
1220	Property taxes, delinquent	153,784	32,318	186,102
1230	Allowance for uncollectible taxes	(38,446)	(8,079)	(46,525)
1240	Due from other governments	122,569	168,883	291,452
1260	Due from other funds	120,523	-	120,523
1290	Other receivables	<u>1,534</u>	<u>-</u>	<u>1,534</u>
1000	Total assets	<u>\$ 3,588,627</u>	<u>\$ 539,561</u>	<u>\$ 4,128,188</u>
LIABILITIES				
Liabilities:				
2110	Accounts payable	\$ 32,985	\$ 49,941	\$ 82,926
2160	Accrued wages payable	123,304	12,920	136,224
2170	Due to other funds	47,856	120,523	168,379
2180	Due to other governments	440,287	-	440,287
2200	Accrued expenditures/expenses	<u>2,251</u>	<u>954</u>	<u>3,205</u>
2000	Total liabilities	<u>646,683</u>	<u>184,338</u>	<u>831,021</u>
DEFERRED INFLOWS OF RESOURCES				
2600	Unavailable revenue-property taxes	<u>94,866</u>	<u>19,433</u>	<u>114,299</u>
	Total deferred inflows of resources	<u>94,866</u>	<u>19,433</u>	<u>114,299</u>
FUND BALANCES				
Restricted:				
3450	Federal and state grants	-	60,415	60,415
3480	Debt service	-	230,573	230,573
3490	Other	-	8,855	8,855
Committed:				
3510	Construction	1,500,000	-	1,500,000
3540	Self-insurance	50,000	-	50,000
3545	Other	-	35,947	35,947
3600	Unassigned	<u>1,297,078</u>	<u>-</u>	<u>1,297,078</u>
3000	Total fund balances	<u>2,847,078</u>	<u>335,790</u>	<u>3,182,868</u>
4000	Total liabilities, deferred inflows of resources and fund balances	<u>\$ 3,588,627</u>	<u>\$ 539,561</u>	<u>\$ 4,128,188</u>

The accompanying notes are an integral part of this financial statement.

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

Total Fund Balances - Governmental Funds	\$ 3,182,868
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.	90,248
2 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	12,071,345
3 Uncollected property taxes are reported as unavailable resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.	114,299
4 Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(7,729,476)
5 Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(13,410)
19 Net position of governmental activities	\$ <u>7,715,874</u>

The accompanying notes are an integral part of this financial statement.

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

Data Control Codes		10		98
		General	Other Governmental	Total Governmental Funds
REVENUES				
5700	Local and intermediate sources	\$ 1,969,139	\$ 606,225	\$ 2,575,364
5800	State program revenues	4,261,376	267,359	4,528,735
5900	Federal program revenues	-	647,521	647,521
5020	Total revenues	6,230,515	1,521,105	7,751,620
EXPENDITURES				
0011	Instruction	3,564,251	445,571	4,009,822
0012	Instructional resources and media services	207,414	-	207,414
0013	Curriculum and instructional staff development	17,073	25,239	42,312
0021	Instructional leadership	93,522	9,771	103,293
0023	School leadership	356,486	3,184	359,670
0031	Guidance, counseling, and evaluation services	133,795	-	133,795
0033	Health services	52,834	-	52,834
0034	Student transportation	126,876	27,419	154,295
0035	Food service	-	442,980	442,980
0036	Extracurricular activities	303,868	42,834	346,702
0041	General administration	334,902	-	334,902
0051	Facilities maintenance and operations	859,107	-	859,107
0052	Security and monitoring services	15,133	-	15,133
0053	Data processing services	84,989	-	84,989
0061	Community services	671	42	713
	Debt service:			
0071	Principal on long-term debt	-	215,000	215,000
0072	Interest on long-term debt	-	330,799	330,799
0073	Bond issuance costs and fees	-	1,207	1,207
	Capital outlay:			
0081	Capital outlay	41,711	-	41,711
	Intergovernmental:			
0095	Payments to Juvenile Justice Alternative Education Progr	5,680	-	5,680
0093	Payments related to shared services arrangements	201,074	-	201,074
0099	Other intergovernmental charges	70,915	-	70,915
6030	Total expenditures	6,470,301	1,544,046	8,014,347
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(239,786)	(22,941)	(262,727)
	OTHER FINANCING SOURCES (USES)			
8911	Transfers out	(100,000)	-	(100,000)
7080	Total other financing sources (uses)	(100,000)	-	(100,000)
1200	NET CHANGE IN FUND BALANCES	(339,786)	(22,941)	(362,727)
0100	FUND BALANCES, BEGINNING	3,470,274	358,731	3,829,005
1300	PRIOR PERIOD ADJUSTMENTS	(283,410)	-	(283,410)
3000	FUND BALANCES, ENDING	\$ 2,847,078	\$ 335,790	\$ 3,182,868

The accompanying notes are an integral part of this financial statement.

ITASCA 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

Net change in fund balances - total governmental funds \$(362,727)

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

Internal service funds are used by management to charge the costs of certain activities, such as print shop services and insurance, to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities. 48,742

In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net assets differs from the change in fund balance by the book value of the capital asset sold. (14,262)

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (435,673)

Property tax revenues that do not provide current financial resources are not reported as revenues in the funds. (17,734)

Bond and loan proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceeded repayments. 219,584

Change in net position of governmental activities \$(562,070)

The accompanying notes are an integral part of this financial statement.

ITASCA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2014

Governmental
Activities
Total
Internal
Service Funds

ASSETS

Current assets:

Cash and cash equivalents

\$ 88,345

Due from other funds

47,856

Total assets

136,201**LIABILITIES**

Current liabilities:

Accrued expenses

45,953

Total liabilities

45,953**NET POSITION**

Unrestricted net position

90,248

Total net position

\$ 90,248

The accompanying notes are an integral part of this financial statement.

ITASCA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014

	Governmental Activities
	<u>Total</u>
	<u>Internal</u>
	<u>Service Funds</u>
OPERATING REVENUES	
Local and intermediate sources	\$ <u>8</u>
Total operating revenues	<u>8</u>
OPERATING EXPENSES	
Other operating costs	<u>51,266</u>
Total operating expenses	<u>51,266</u>
OPERATING INCOME (LOSS)	<u>(51,258)</u>
Transfers in	<u>100,000</u>
CHANGES IN NET POSITION	48,742
TOTAL NET POSITION, BEGINNING	<u>41,506</u>
TOTAL NET POSITION, ENDING	<u>\$ 90,248</u>

The accompanying notes are an integral part of this financial statement.

**ITASCA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2014**

	Governmental Activities
	Total
	Internal
	Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 8
Cash payments for other operating expenses	(31,967)
Net cash provided (used) by operating activities	(31,959)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital contributed by other funds	100,000
Net cash provided (used) by capital and related financing activities	100,000
NET DECREASE IN CASH AND CASH EQUIVALENTS	68,041
CASH AND CASH EQUIVALENTS, BEGINNING	20,304
CASH AND CASH EQUIVALENTS, ENDING	\$ 88,345
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CHANGES IN NET POSITION	
Operating income (loss)	\$(51,258)
Effect of increases and decreases in current assets and liabilities	
Decrease (increase) in accounts payable	19,299
Net cash provided (used) for operating activities	\$(31,959)

The accompanying notes are an integral part of this financial statement.

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

	Private Purpose Trust Funds	Agency Fund
ASSETS		
Cash and cash equivalents	\$ 45,725	\$ 26,121
Restricted assets	<u>153,081</u>	<u>-</u>
Total assets	<u>198,806</u>	<u>\$ 26,121</u>
LIABILITIES		
Due to student groups	<u>5,204</u>	<u>\$ 26,121</u>
Total liabilities	<u>5,204</u>	<u>\$ 26,121</u>
NET ASSETS		
Unrestricted net assets	<u>193,602</u>	
Total net assets	<u>\$ 193,602</u>	

The accompanying notes are an integral part of this financial statement.

ITASCA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2014

	<u>Private Purpose Trust Funds</u>
ADDITIONS	
Local and intermediate sources	\$ <u>6,139</u>
Total additions	<u>6,139</u>
DEDUCTIONS	
Supplies and materials	<u>16,625</u>
Total deductions	<u>16,625</u>
Changes in net position	(10,486)
TOTAL NET POSITION, BEGINNING	<u>204,088</u>
TOTAL NET POSITION, ENDING	<u>\$ 193,602</u>

The accompanying notes are an integral part of this financial statement.

ITASCA INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Itasca Independent School District (the "District") is a public educational 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 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. There are no component units included within the reporting entity. The District prepares its basic financial statements in conformity with generally accepted accounting principles 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.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

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

Interfund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Net Position.

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, 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.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenue and expenses are nonoperating.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting* as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which it is 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, that is, when they are both measurable and available. The District considers them “available” if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenue until related and authorized expenditures 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.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

D. Fund Accounting

The District reports the following major governmental funds:

The ***General Fund*** is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the government reports the following fund types:

Non-major Governmental Funds:

Special Revenue Funds accounts for resources restricted to, or designated for, specific purposes by a grantor. Some Federal and 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 specific project periods.

The ***Debt Service Fund*** accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

The *Capital Projects Fund* is used to account for the construction of capital assets.

Proprietary Funds:

The *Internal Service Funds* account for revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis. The District's Internal Service Fund is the Workman Compensation Fund.

Fiduciary Fund Types:

The *Private Purpose Trust Fund* accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the District's programs.

Agency Funds accounts for resources held for others in a custodial capacity. The District's *Agency Fund* is the Activity Account.

E. Assests, Liabilities, and Net Position or Equity

Deposits and Investments

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

Receivables and Payables

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

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Property taxes are levied as of October 1 on property values assessed 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 following year in which imposed. On January 31 of each year, a tax lien attaches to property to secure payment of all taxes, penalties, and interest ultimately imposed.

Tax collections are prorated between the General Fund and Debt Service Fund based on the tax rate approved by the Board. For the year ended August 31, 2014, the rates were \$1.1700 and \$0.2863, respectively, per \$100 of assessed value.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Capital Assets

Capital assets, which include land, buildings, furniture and equipment, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of five years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Building improvements	40
Vehicles	5
Furniture and equipment	5 - 15

Compensated Absences

It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated vacation or sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District.

Long-term Obligations

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 position. 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.

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

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement elements, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District does not have any items that qualify for reporting in this category in the current fiscal year.

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

Fund Balance

The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- **Nonspendable:** This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact. Nonspendable items are not expected to be converted to cash or are not expected to be converted to cash within the next year.
- **Restricted:** This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by ordinance of the School Board, the District's highest level of decision making authority. These amounts cannot be used for any other purpose unless the School Board removes or changes the specified use by taking the same type of action that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements.
- **Assigned:** This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by the School Board or Superintendent.
- **Unassigned:** This classification includes the residual fund balance for the General Fund. The unassigned classification also includes negative residual fund balance of any other governmental fund that cannot be eliminated by offsetting of assigned fund balance amounts.

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

Net Position

Net positions represent the difference between assets, deferred inflows/outflows of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Data Control Codes

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The amount of state foundation revenue a school district earns for a year can and does vary until the time final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimates as of August 31, 2014, will change.

Prior Period Adjustment – Change in Accounting Principles

As the result of implementing GASB Statement 65, the District has decreased beginning net position as of September 1, 2013 by \$113,687 for the governmental activities. This decrease results from no longer deferring and amortizing bond issuance costs.

An additional prior period adjustment was made in order to record a Due to State liability from the prior year. This adjustment decreased beginning net position as of September 1, 2013 by \$283,410 and is reflected in both the fund financials as well as the government-wide financial statements.

II. DETAILED NOTES ON ALL FUNDS

A. 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, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U. S. Treasury, certain U. S. Agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers' acceptances, (7) Mutual Funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

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. As of August 31, 2014, the District had a deposit balance of \$267,466. The District's deposit balance was fully collateralized with securities held by the pledging financial institution in the District's name and FDIC insurance. In addition, the highest deposit balance occurred in May 2014 and was entirely covered by FDIC insurance or by securities held by the pledging financial institution.

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. All of the District's investments of \$3,671,050 are registered, therefore, it does not have any custodial credit risk exposure.

Interest Rate Risk

As a means of limiting its exposure to interest rate risk, the District diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer. The District coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than one year from the purchase date.

Credit Risk

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
TexPool Investment	\$ 3,671,050	0
	<u>\$ 3,671,050</u>	

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one-half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the Pool's underlying portfolio, unless the Pool is 2a7-like, in which case, they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

B. Interfund Balances and Activities

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

<u>Due to Fund</u>	<u>Due from Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Non-major Funds	\$ 120,523	Excess transferred
Internal Service Fund	General Fund	47,856	To cover expenditures
Total		<u>\$ 168,379</u>	

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

<u>Transfer From</u>	<u>Transfer To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	Internal Service Fund	\$ 100,000	To cover expenditures
Total		<u>\$ 100,000</u>	

C. Capital Assets

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

	<u>09/01/13</u>	<u>Additions</u>	<u>Deletions</u>	<u>Transfers</u>	<u>08/31/14</u>
Governmental activities:					
Capital assets, not being depreciated:					
Land	\$ 290,265	\$ -	\$ -	\$ -	\$ 290,265
Total capital assets, not being depreciated	<u>290,265</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>290,265</u>
Capital assets, being depreciated:					
Buildings and improvements	17,767,150	25,145	-	-	17,792,295
Furniture and equipment	1,042,986	17,853	33,279	-	1,027,560
Total capital assets, being depreciated	<u>18,810,136</u>	<u>42,998</u>	<u>33,279</u>	<u>-</u>	<u>18,819,855</u>
Less accumulated depreciation for:					
Buildings and improvements	(5,883,203)	(406,584)	-	-	(6,289,787)
Furniture and equipment	(695,918)	(72,087)	19,017	-	(748,988)
Total Accumulated Depreciation	<u>(6,579,121)</u>	<u>(478,671)</u>	<u>19,017</u>	<u>-</u>	<u>(7,038,775)</u>
Total capital assets, being depreciated, net	<u>12,231,015</u>	<u>(435,673)</u>	<u>14,262</u>	<u>-</u>	<u>11,781,080</u>
Governmental activities capital assets, net	<u>\$ 12,521,280</u>	<u>\$ (435,673)</u>	<u>\$ 14,262</u>	<u>\$ -</u>	<u>\$ 12,071,345</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 255,954
Instructional resources and media services	17,289
Curriculum and instructional staff development	5,382
Instructional leadership	3,969
School leadership	33,970
Guidance, counseling and evaluation services	12,176
Health services	5,382
Student (Pupil) Transportation	29,803
Food services	21,650
Cocurricular/Extracurricular activities	12,595
General administration	12,783
Plant maintenance and operations	59,524
Security and monitoring services	3,081
Data processing services	<u>5,113</u>
Total Depreciation Expense	<u>\$ 478,671</u>

D. Bonds Payable

The District issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government.

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

Description	Interest Rate Payable	Amounts Original Issue	Maturity Date	Balance Outstanding 09/01/13	Retired/ Refunded	Additions	Outstanding 08/31/14	Amounts Due in One Year
Unlimited Tax Building Bonds Series 1998	4.60- 6.0%	\$ 1,500,000	8/15/2021	\$ 745,000	\$ 80,000	\$ -	\$ 665,000	\$ 80,000
Unlimited Tax Building Bonds Series 1999	4.50- 6.00%	1,950,000	8/15/2022	1,105,000	85,000	-	1,020,000	95,000
Unlimited Tax Building Bonds Series 2010	2.00- 4.125%	<u>6,000,000</u>	8/15/2040	<u>5,985,000</u>	<u>50,000</u>	<u>-</u>	<u>5,935,000</u>	<u>50,000</u>
		<u>\$ 9,450,000</u>		<u>\$ 7,835,000</u>	<u>\$ 215,000</u>	<u>\$ -</u>	<u>\$ 7,620,000</u>	<u>\$ 225,000</u>

The associated premium on bonds, totaling \$109,476 as of August 31, 2014, are being amortized over the life of the bonds.

Debt service requirements are as follows:

Year Ended August 31,	General Obligations		Total Requirements
	Principal	Interest	
2015	\$ 225,000	\$ 321,841	\$ 546,841
2016	235,000	312,281	547,281
2017	245,000	301,931	546,931
2018	255,000	290,881	545,881
2019	265,000	279,241	544,241
2020-2024	1,340,000	1,195,816	2,535,816
2025-2029	1,250,000	937,031	2,187,031
2030-2034	1,520,000	664,188	2,184,188
2035-2039	1,865,000	323,400	2,188,400
2040-Maturity	420,000	17,325	437,325
Total Minimum Rentals	\$ 7,620,000	\$ 4,643,936	\$ 12,263,936

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2014.

E. Commitments Under Leases

The District did not have any commitments to capital lease agreements.

F. Defined Benefit Pension Plan

Plan Description. The Itasca Independent School District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing multiple employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefit provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. 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 downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system; (2) state statute prohibits benefit improvements, if as result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Contribution rates and contributions for fiscal years 2014-2012 are shown in the table below. These rates are set by the General Appropriations Act. In certain instances, the reporting district is required to make all or a portion of the state's and/or member's contribution and on the portion of the employees' salaries that exceeded the statutory minimum.

Contribution Rates and Contribution Amounts					
Year	Member		State		Statutory Minimum Amount
	Rate	Amount	Rate	Amount	
2014	6.4%	\$ 271,888	6.8%	\$ 216,848	\$ 46,199
2013	6.4%	\$ 262,976	6.4%	\$ 200,988	\$ 37,310
2012	6.4%	\$ 261,491	6.0%	\$ 191,358	\$ 37,161

G. Health Care Coverage

During the period ended August 31, 2014, employees of the District were covered by a state-wide health care plan, TRS Active Care. The District's participation in this plan is renewable annually. The District paid into the Plan \$225 per month per employee. Employees, at their option, pay premiums for any coverage above these amounts as well as for dependent coverage.

The Teachers Retirement System (TRS) manages TRS Active Care. The medical plan is administered by Blue Cross and Blue Shield of Texas, FIRSTCARE, and Scott and White HMO. Medco Health administers the prescription drug plan. The latest financial information on the state-wide plan 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.

H. Retiree Health Plan

Plan Description. The Itasca 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 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 Teacher Retirement System of Texas issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2014-2012.

Contribution Rates						
Year	Active Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2014	0.65%	\$ 27,504	1.0%	\$ 42,314	0.55%	\$ 23,273
2013	0.65%	\$ 26,708	0.5%	\$ 20,544	0.55%	\$ 22,599
2012	0.65%	\$ 26,554	1.0%	\$ 40,852	0.55%	\$ 22,468

Medicare Part D – On-behalf Payments. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments of \$11,516, \$11,284 and \$10,636 were recognized for the years ended August 31, 2014, 2013, and 2012 respectively, as equal revenues and expenditures.

Early Retiree Reinsurance Program– On-behalf Payments. The Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA). A provision of the PPACA allows the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive a reimbursement from the federal government for a portion of the cost to provide health benefits to retirees between the ages of 55 – 64 and their covered dependents regardless of age. This program was not available to the District in fiscal year 2014 and 2013; therefore, an on-behalf payment was not recorded in fiscal year 2013. The District participated in the program for the year ended August 31, 2012, and \$7,036 was recognized during the year as equal revenues and expenditures.

I. Commitments and Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

J. Unearned Revenue

The District had no unearned revenue at August 31, 2014.

K. Disaggregation of Receivables and Payables

Receivables at August 31, 2014, were as follows:

Fund	Property Taxes	Other Governments	Due from Other Funds	Other Receivables	Total Receivables
General	\$ 153,784	\$ 122,569	\$ 120,523	\$ 1,534	\$ 398,410
Internal Service Fund	-	-	47,856	-	47,856
Non-Major Funds	32,318	168,883	-	-	201,201
Total Governmental Activities	<u>\$ 186,102</u>	<u>\$ 291,452</u>	<u>\$ 168,379</u>	<u>\$ 1,534</u>	<u>\$ 647,467</u>
Allowance for uncollectibles	<u>\$ (46,525)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (46,525)</u>

Payables at August 31, 2014, were as follows:

<u>Fund</u>	<u>Accounts Payable</u>	<u>Salaries and Benefits</u>	<u>Due to Other Funds</u>	<u>Due to Other Govts.</u>	<u>Total Payables</u>
General	\$ 32,985	\$ 125,555	\$ 47,856	\$ 440,287	\$ 646,683
Internal Service Fund	-	45,953	-	-	45,953
Non-Major Funds	<u>49,941</u>	<u>13,874</u>	<u>120,523</u>	<u>-</u>	<u>184,338</u>
Totals	<u>\$ 82,926</u>	<u>\$ 185,382</u>	<u>\$ 168,379</u>	<u>\$ 440,287</u>	<u>\$ 876,974</u>

L. Due from Other Governments

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

<u>Fund</u>	<u>State Entitlement</u>	<u>Federal Grants</u>	<u>Total</u>
General	\$ 122,569	\$ -	\$ 122,569
Non-Major Funds	<u>32,866</u>	<u>136,017</u>	<u>168,883</u>
Total Entitlements	<u>\$ 155,435</u>	<u>\$ 136,017</u>	<u>\$ 291,452</u>

M. Revenue from Local and Intermediate Sources

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

	<u>General</u>	<u>Non-Major Funds</u>	<u>Internal Service Fund</u>	<u>Trust Fund</u>	<u>Total</u>
Property taxes	\$ 1,903,681	\$ 465,433	\$ -	\$ -	\$ 2,369,114
Taxes, interest and other tax-related income	46,278	10,401	-	-	56,679
Investment income	1,615	126	8	-	1,749
Food sales	-	91,273	-	-	91,273
Curricular student activities	8,930	-	-	-	8,930
Other income	<u>8,635</u>	<u>38,992</u>	<u>-</u>	<u>6,139</u>	<u>53,766</u>
Totals	<u>\$ 1,969,139</u>	<u>\$ 606,225</u>	<u>\$ 8</u>	<u>\$ 6,139</u>	<u>\$ 2,581,511</u>

N. Joint Venture-Shared Service Arrangements

The District participates in shared service arrangements for Juvenile Justice Alternate Education Services, with other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Itasca Independent School District. The fiscal agent manager is responsible for all financial activities of the shared service arrangement.

O. Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past four years.

P. Maintenance of Effort

The District spent \$171,166 for health insurance premiums in the fiscal year ended August 31, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

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

Data Control Codes		Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget Positive (Negative)
		Original	Final		
	REVENUES				
5700	Local and intermediate sources	\$ 1,895,253	\$ 1,895,253	\$ 1,969,139	\$ 73,886
5800	State program revenues	4,608,940	4,608,940	4,261,376	(347,564)
5020	Total revenues	6,504,193	6,504,193	6,230,515	(273,678)
	EXPENDITURES				
	Current:				
0011	Instruction	3,533,345	3,626,049	3,564,251	61,798
0012	Instructional resources and media services	239,102	229,102	207,414	21,688
0013	Curriculum and staff development	11,280	20,361	17,073	3,288
0021	Instructional leadership	96,923	94,923	93,522	1,401
0023	School leadership	354,254	359,125	356,486	2,639
0031	Guidance, counseling, and evaluation services	135,003	136,003	133,795	2,208
0033	Health services	54,772	54,773	52,834	1,939
0034	Student transportation	181,622	161,622	126,876	34,746
0036	Extracurricular activities	344,627	321,627	303,868	17,759
0041	General administration	379,090	349,090	334,902	14,188
0051	Facilities maintenance and operations	938,169	960,513	859,107	101,406
0052	Security and monitoring services	19,284	19,285	15,133	4,152
0053	Data processing services	89,468	89,468	84,989	4,479
0061	Community services	1,000	1,000	671	329
	Capital outlay:				
0081	Capital outlay	-	41,765	41,711	54
	Intergovernmental:				
0095	Payments to Juvenile Justice Alternative	14,220	14,220	5,680	8,540
0093	Payments related to shared services arrangements	201,075	201,075	201,074	1
0099	Other governmental charges	84,361	84,361	70,915	13,446
6030	Total expenditures	6,677,595	6,764,362	6,470,301	294,061
1100	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(173,402)	(260,169)	(239,786)	20,383
	OTHER FINANCING SOURCES (USES)				
8911	Transfers out	-	-	(100,000)	(100,000)
7080	Total other financing sources (uses)	-	-	(100,000)	(100,000)
1200	NET CHANGE IN FUND BALANCES	(173,402)	(260,169)	(339,786)	79,617
0100	FUND BALANCES, BEGINNING	3,470,274	3,470,274	3,470,274	-
1300	PRIOR PERIOD ADJUSTMENTS	-	-	(283,410)	(283,410)
3000	FUND BALANCES, ENDING	\$ 3,296,872	\$ 3,210,105	\$ 2,847,078	\$ (363,027)

ITASCA INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
AUGUST 31, 2014

Budgetary Information

The Board of Trustees adopts an “appropriated budget” for the General Fund, Debt Service and the National School Breakfast and Lunch Program Fund, which is included in the Special Revenue Funds.

The District is required to present the adopted and final amended budgeted revenue and expenditures for each of these funds. The District compares the final amended budget to actual revenue and expenditures. The General Fund Budget is presented at Exhibit G-1 and the Debt Service and the National School Breakfast and Lunch Program Funds are presented at Exhibit J-4 and J-5.

The following procedures are followed in establishing the budgetary data reflected in the basic 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 10 days’ public notice of the meeting must be given.
3. Prior to August 31, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments 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. However, none of these were significant.
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.
5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year’s budget. The District had no outstanding end-of-year encumbrances.
6. The District’s expenditures did not exceed appropriations in any functions in the General Fund. In the National School Breakfast and Lunch Program Fund, food service expenditures exceed appropriations by \$53,368. In the Debt Service Fund, debt service – principal on long-term debt expenditures exceeded appropriations by \$5,000. The excess expenditures in the National School Breakfast and Lunch Program and Debt Service Funds were covered by excess revenue and available fund balance.

COMBINING SCHEDULES

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

<u>Data Control Codes</u>		<u>211 ESEA I, A Improving Basic Programs</u>	<u>224 IDEA Part B, Formula</u>	<u>240 National Breakfast and Lunch Program</u>	<u>255 ESEA II, A Training and Recruiting</u>
ASSETS					
1110	Cash and cash equivalents	\$ -	\$ -	\$ 73,221	\$ -
1220	Property taxes - delinquent	-	-	-	-
1230	Allowance for uncollectible taxes	-	-	-	-
1240	Due from other governments	<u>71,023</u>	<u>-</u>	<u>5,523</u>	<u>9,746</u>
1000	Total assets	<u>\$ 71,023</u>	<u>\$ -</u>	<u>\$ 78,744</u>	<u>\$ 9,746</u>
LIABILITIES					
	Liabilities:				
2110	Accounts payable	\$ -	\$ -	\$ 14,426	\$ -
2160	Accrued wages payable	9,089	-	3,831	-
2170	Due to other funds	61,052	-	-	9,746
2200	Accrued Expenditures	<u>882</u>	<u>-</u>	<u>72</u>	<u>-</u>
	Total liabilities	<u>71,023</u>	<u>-</u>	<u>18,329</u>	<u>9,746</u>
DEFERRED INFLOWS OF RESOURCES					
2600	Unavailable revenue-property taxes	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
	Restricted:				
3450	Federal or state grants	-	-	60,415	-
3480	Retirement of long-term debt	-	-	-	-
3490	Other	-	-	-	-
	Committed:				
3545	Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000	Total fund balances	<u>-</u>	<u>-</u>	<u>60,415</u>	<u>-</u>
4000	Total liabilities, deferred inflows of resources and fund balances	<u>\$ 71,023</u>	<u>\$ -</u>	<u>\$ 78,744</u>	<u>\$ 9,746</u>

EXHIBIT H-1

265 Title IV, B Community Learning	270 ESEA VI, B Rural and Low- Income Program	410 State Instructional Materials	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	511 Debt Service Fund
\$ -	\$ -	\$ 2,299	\$ 35,947	\$ 111,467	\$ 226,117
-	-	-	-	-	32,318
-	-	-	-	-	(8,079)
<u>42,014</u>	<u>7,711</u>	<u>32,866</u>	<u>-</u>	<u>168,883</u>	<u>-</u>
\$ <u>42,014</u>	\$ <u>7,711</u>	\$ <u>35,165</u>	\$ <u>35,947</u>	\$ <u>280,350</u>	\$ <u>250,356</u>
\$ -	\$ -	\$ 35,165	\$ -	\$ 49,591	\$ 350
-	-	-	-	12,920	-
42,014	7,711	-	-	120,523	-
-	-	-	-	954	-
<u>42,014</u>	<u>7,711</u>	<u>35,165</u>	<u>-</u>	<u>183,988</u>	<u>350</u>
-	-	-	-	-	19,433
-	-	-	-	-	19,433
-	-	-	-	60,415	-
-	-	-	-	-	230,573
-	-	-	-	-	-
-	-	-	35,947	35,947	-
-	-	-	35,947	96,362	230,573
\$ <u>42,014</u>	\$ <u>7,711</u>	\$ <u>35,165</u>	\$ <u>35,947</u>	\$ <u>280,350</u>	\$ <u>250,356</u>

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

	699 Capital Projects	Total Nonmajor Governmental
	<u> </u>	<u> </u>
ASSETS		
Cash and cash equivalents	\$ 8,855	\$ 346,439
Property taxes - delinquent	-	32,318
Allowance for uncollectible taxes	-	(8,079)
Due from other governments	<u>-</u>	<u>168,883</u>
		-
Total assets	<u>\$ 8,855</u>	<u>\$ 539,561</u>
LIABILITIES		
Liabilities:		
Accounts payable	\$ -	\$ 49,941
Accrued wages payable	-	12,920
Due to other funds	-	120,523
Accrued Expenditures	<u>-</u>	<u>954</u>
Total liabilities	<u>-</u>	<u>184,338</u>
DEFERRED INFLOWS OF RESOURCES		
Unavailable revenue-property taxes	<u>-</u>	<u>19,433</u>
Total deferred inflows of resources	<u>-</u>	<u>19,433</u>
FUND BALANCES		
Restricted:		
Federal or state grants	-	60,415
Retirement of long-term debt	-	230,573
Other	8,855	8,855
Committed:		
Other	<u>-</u>	<u>35,947</u>
Total fund balances	<u>8,855</u>	<u>335,790</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 8,855</u>	<u>\$ 539,561</u>

ITASCA 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 Programs	224 IDEA Part B, Formula	240 National Breakfast and Lunch Program	255 ESEA II, A Training and Recruiting
REVENUES					
5700	Local and intermediate sources	\$ -	\$ -	\$ 91,273	\$ -
5800	State program revenues	-	-	12,055	-
5900	Federal program revenues	<u>196,839</u>	<u>18,357</u>	<u>265,524</u>	<u>32,156</u>
5020	Total revenues	<u>196,839</u>	<u>18,357</u>	<u>368,852</u>	<u>32,156</u>
EXPENDITURES					
	Current:				
0011	Instruction	171,529	18,357	-	19,230
0013	Curriculum and instructional staff development	12,445	-	-	12,794
0021	Instructional leadership	9,771	-	-	-
0023	School leadership	3,052	-	-	132
0034	Student (pupil) transportation	-	-	-	-
0035	Food services	-	-	442,980	-
0036	Extracurricular activities	-	-	-	-
0061	Community services	42	-	-	-
	Debt service:				
0071	Principal on long-term debt	-	-	-	-
0072	Interest on long-term debt	-	-	-	-
0073	Bond issuance costs and fees	-	-	-	-
6030	Total expenditures	<u>196,839</u>	<u>18,357</u>	<u>442,980</u>	<u>32,156</u>
1200	NET CHANGE IN FUND BALANCES	-	-	(74,128)	-
0100	FUND BALANCE, BEGINNING	<u>-</u>	<u>-</u>	<u>134,543</u>	<u>-</u>
3000	FUND BALANCE, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 60,415</u>	<u>\$ -</u>

EXHIBIT H-2

265 Title IV, B Community Learning	270 ESEA VI, B Rural and Low- Income Program	410 State Instructional Materials	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	511 Debt Service Fund
\$ -	\$ -	\$ -	\$ 38,992	\$ 130,265	\$ 475,960
-	-	129,229	-	141,284	126,075
<u>121,177</u>	<u>13,468</u>	<u>-</u>	<u>-</u>	<u>647,521</u>	<u>-</u>
<u>121,177</u>	<u>13,468</u>	<u>129,229</u>	<u>38,992</u>	<u>919,070</u>	<u>602,035</u>
93,758	13,468	129,229	-	445,571	-
-	-	-	-	25,239	-
-	-	-	-	9,771	-
-	-	-	-	3,184	-
27,419	-	-	-	27,419	-
-	-	-	-	442,980	-
-	-	-	42,834	42,834	-
-	-	-	-	42	-
-	-	-	-	-	215,000
-	-	-	-	-	330,799
-	-	-	-	-	1,207
<u>121,177</u>	<u>13,468</u>	<u>129,229</u>	<u>42,834</u>	<u>997,040</u>	<u>547,006</u>
-	-	-	(3,842)	(77,970)	55,029
-	-	-	39,789	174,332	175,544
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 35,947</u>	<u>\$ 96,362</u>	<u>\$ 230,573</u>

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

	699 Capital Projects	Total Nonmajor Governmental
	<u> </u>	<u> </u>
REVENUES		
Local and intermediate sources	\$ -	\$ 606,225
State program revenues	-	267,359
Federal program revenues	<u>-</u>	<u>647,521</u>
Total revenues	<u>-</u>	<u>1,521,105</u>
EXPENDITURES		
Current:		
Instruction	-	445,571
Curriculum and instructional staff development	-	25,239
Instructional leadership	-	9,771
School leadership	-	3,184
Student (pupil) transportation	-	27,419
Food services	-	442,980
Extracurricular activities	-	42,834
Community services	-	42
Debt service:		
Principal on long-term debt	-	215,000
Interest on long-term debt	-	330,799
Bond issuance costs and fees	<u>-</u>	<u>1,207</u>
Total expenditures	<u>-</u>	<u>1,544,046</u>
NET CHANGE IN FUND BALANCES	-	(22,941)
FUND BALANCE, BEGINNING	<u>8,855</u>	<u>358,731</u>
FUND BALANCE, ENDING	<u>\$ 8,855</u>	<u>\$ 335,790</u>

REQUIRED TEA SCHEDULES

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

Last Ten Years Ended August 31,	1	2	3	10	20
	Tax Rates		Net Assessed/ Appraised Value for School Tax Purpose	Beginning Balance 09/01/13	Current Year's Total Levy
	Maintenance	Debt Service			
2005 and prior years	various	various	various	\$ 12,617	\$ -
2006	1.500000	0.089400	98,392,666	2,582	-
2007	1.500000	0.089400	105,544,845	3,220	-
2008	1.142240	0.109860	130,881,743	3,143	-
2009	1.170000	0.101800	171,523,040	8,025	-
2010	1.170000	0.104100	207,362,856	12,380	-
2011	1.170000	0.265000	202,767,618	21,243	-
2012	1.170000	0.274300	190,447,741	36,816	-
2013	1.170000	0.280500	173,525,543	101,875	-
2014	1.170000	0.286300	163,459,452	-	2,380,460
1000 Totals				\$ 201,901	\$ 2,380,460

EXHIBIT J-1

31	32	40	50
Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 08/31/2014
\$ 76	\$ -	\$ (4,168)	\$ 8,373
-	-	(42)	2,540
10	1	(454)	2,755
332	32	(372)	2,407
3,346	291	(301)	4,087
4,865	433	161	7,243
10,268	2,326	64	8,713
17,247	4,043	9	15,535
53,688	12,871	(3,711)	31,605
<u>1,823,430</u>	<u>446,195</u>	<u>(7,991)</u>	<u>102,844</u>
\$ <u>1,913,262</u>	\$ <u>466,192</u>	\$ <u>(16,805)</u>	\$ <u>186,102</u>

ITASCA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - NATIONAL BREAKFAST AND LUNCH PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes		Budgeted Amounts		Actual Amounts GAAP Basis)	Variance with Final Budget Positive (Negative)
		Original	Final		
	REVENUES				
5700	Local and intermediate sources	\$ 100,000	\$ 100,000	\$ 91,273	\$(8,727)
5800	State program revenues	7,726	7,726	12,055	4,329
5900	Federal program revenues	264,000	264,000	265,524	1,524
5020	Total revenues	371,726	371,726	368,852	(2,874)
	EXPENDITURES				
0035	Food Service	389,612	389,612	442,980	(53,368)
6030	Total expenditures	389,612	389,612	442,980	(53,368)
	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(17,886)	(17,886)	(74,128)	(56,242)
1200	NET CHANGE IN FUND BALANCE	(17,886)	(17,886)	(74,128)	(56,242)
0100	FUND BALANCE, BEGINNING	134,543	134,543	134,543	-
3000	FUND BALANCE, ENDING	\$ 116,657	\$ 116,657	\$ 60,415	\$(56,242)

ITASCA 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 (Budgetary Basis)	Variance with Final Budget Positive (Negative)
		Original	Final		
	REVENUES				
5700	Local and intermediate sources	\$ 444,100	\$ 444,100	\$ 475,960	\$ 31,860
5800	State program revenues	102,761	102,761	126,075	23,314
5020	Total revenues	546,861	546,861	602,035	55,174
	EXPENDITURES				
	Current:				
0071	Principal on long-term debt	210,000	210,000	215,000	(5,000)
0072	Interest on long-term debt	338,469	338,469	330,799	7,670
0073	Bond issuance costs and fees	1,500	1,500	1,207	293
6030	Total expenditures	549,969	549,969	547,006	2,963
1200	NET CHANGE IN FUND BALANCES	(3,108)	(3,108)	55,029	58,137
0100	FUND BALANCES, BEGINNING	175,544	175,544	175,544	-
3000	FUND BALANCES, ENDING	\$ 172,436	\$ 172,436	\$ 230,573	\$ 58,137

INTERNAL CONTROL REPORT



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

To the Board of Trustees of
Itasca Independent School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Itasca Independent School District as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise Itasca Independent School District's basic financial statements and have issued our report thereon dated December 8, 2014.

Internal Control Over Financial Reporting

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.

Patillo, Brown & Hill, L.L.P.

December 8, 2014

FEDERAL AWARDS SECTION



P A T T I L L O , B R O W N & H I L L , L L P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

Board of Trustees
Itasca Independent School District
Itasca, Texas

Report on Compliance for Each Major Federal Program

We have audited Itasca 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 the District's major federal programs for the year ended August 31, 2014. Itasca Independent School District's major federal programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Itasca 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 Itasca 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 Itasca Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Itasca 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.

Report on Internal Control Over Compliance

Management of Itasca 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 Itasca 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 Itasca 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.

Patillo, Brown & Hill, L.L.P.

December 8, 2014

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

(1) Federal Grantor/ Pass-through Grantor/ Grantor/Program Title	(2) Federal CFDA Number	(2A) Pass-through Entity Identifying Number	(3) Federal Expenditures
<u>U. S. DEPARTMENT OF AGRICULTURE</u>			
Passed through the Texas Education Agency:			
School Breakfast Program	10.553	14-109907	\$ 46,172
National School Lunch Program - Cash assistance	10.555	14-109907	195,821
Total Passed through the Texas Education Agency			<u>241,993</u>
Passed through the Texas Department of Agriculture:			
National School Lunch Program Commodities - Non-cash assistance	10.555	14-109907	23,531
Total Passed through the Texas Department of Agriculture			<u>23,531</u>
Total Child Nutrition Cluster			<u>265,524</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE			<u>265,524</u>
<u>U. S. DEPARTMENT OF EDUCATION</u>			
Passed through the Texas Education Agency:			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	14610101109907	196,839
IDEA - Part B, Formula	84.027A	14H027A100008	18,357
ESEA, Title II, Part A - Teacher/Principal Training	84.367A	14694501109907	32,156
ESEA, Title VI, Part B - Rural and Low-Income School Program	84.358B	14696001109907	13,468
Total Passed through the Texas Education Agency			<u>260,820</u>
Passed through Region 12 Education Service Center:			
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287C	146950167110015	121,177
Total Title IV, Pt B-21st Cent. Community Learning Cent.			<u>121,177</u>
Total Passed through Region 12 Education Service Center			<u>121,177</u>
TOTAL U. S. DEPARTMENT OF EDUCATION			<u>381,997</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 647,521</u>

ITASCA INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS

AUGUST 31, 2014

1. GENERAL

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal award programs of Itasca Independent School District. The District's reporting entity is defined in Note I of the financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule of Expenditures of Federal Awards.

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. The modified accrual basis of accounting is described in Note I of the financial statements.

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

Summary of Auditor's Results

Financial Statements:

Type of auditors' report issued	Unqualified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported
Noncompliance material to the financial statements noted?	None

Federal Awards:

Internal control over major programs: Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported

Type of auditors' report issued on compliance for major programs	Unqualified
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Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	None
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Identification of major programs:

CFDA Number(s) 84.010A	Name of Federal Program or Cluster: ESEA Title I, Part A Improving Basic Programs
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Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
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Auditee qualified as a low-risk auditee?	The District was classified as a low-risk auditee in the context of OMB Circular A-133
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Findings Relating to the Financial Statements Which are Required to be Reported in Accordance With Generally Accepted Government Auditing Standards

None

Findings and Questioned Costs for Federal Awards

None

ITASCA INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2014

No prior year findings.