

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT FOR THE
YEAR ENDED AUGUST 31, 2012

Moore and Caver, Inc.
Certified Public Accountants



HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2012

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CERTIFICATE OF BOARD

Hughes Springs Independent School District Cass 034-903
Name of School District County 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, 2012, at a meeting of the board of trustees of such school district on the 10th day of December, 2012.

Signature of Board Secretary

Signature of Board President

If the board of trustees disapproved of the auditor's report, the reason(s) for disapproving it is (are): (attach list as necessary)

FINANCIAL SECTION



Judy C. Moore, CPA
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UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER
SUPPLEMENTARY INFORMATION INCLUDING THE
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Independent Auditor's Report

Board of Trustees
Hughes Springs Independent School District
871 Taylor St.
Hughes Springs, Texas 75656

Members of the Board:

We have audited the accompanying financial statements of the governmental activities and the aggregate remaining fund information of Hughes Springs Independent School District (the District) as of and for the year ended August 31, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's administrators. Our responsibility is to express an opinion 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information of Hughes Springs Independent School District as of August 31, 2012, and the respective change in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's discussion and analysis and budgetary comparison information on pages 5 through 12 and 43, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the

required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2012, on our consideration of the District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over compliance and the results of that testing and not to provide an opinion on the internal controls over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Hughes Springs Independent School District's basic financial statements.

The accompanying 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 not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Although the combining statements are presented for purposes of additional analysis and are not a required part of the basic financial statements, they have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-4. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink that reads "Moore and Caver, Inc." in a cursive script.

MOORE and CAVER, Inc.
Certified Public Accountants

November 1, 2012

**Management's Discussion and Analysis
Hughes Springs Independent School District
For the Fiscal Year Ended August 31, 2012**

-UNAUDITED-

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Hughes Springs Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2012. Please read it in conjunction with the independent auditors' report on page 3, and the District's Basic Financial Statements which begin on page 14.

FINANCIAL HIGHLIGHTS

The District's net assets increased by \$1,276,663 as a result of this year's operations. Program revenues accounted for \$1,612,681 or 14.56% of total revenue, and general revenues accounted for \$9,460,921 or 85.44%.

During the year, the District had expenses that were \$1,276,663 less than the \$11,073,602 generated in tax and other revenues for governmental programs (before special items). Total cost of all of the District's programs decreased by \$442,707.

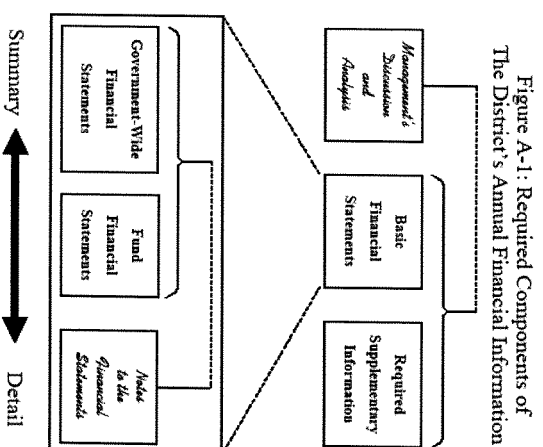
The general fund reported a positive fund balance of \$9,173,708.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 14 and 15). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 16) 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. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. 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 district.



**Management's Discussion and Analysis
Hughes Springs Independent School District
For the Fiscal Year Ended August 31, 2012**

-UNAUDITED-

The notes to the financial statements (starting on page 24) 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. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Assets and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 14. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all the District's assets and liabilities at the end of the year while the

Figure A-2: Major Features of the Center's Government-Wide and Fund Financial Statements

Type of Statements	Government-Wide	Governmental Funds	Fund Statements-	Proprietary Funds	fiduciary Funds
Scope	Entire Agency's Governmental Funds and the Agency's Component Units	The activities of the Center that are not proprietary or fiduciary	Proprietary Funds	Activities the Center operates similar to private business; Public	Instances in which the Center is the trustee or agent for someone else's resources
Required Financial Statements	*Statement of Net Assets *Statement of Activities	*Balance Sheet *Statement of revenues, expenditures and changes in fund balances	*Statement of Net Assets *Statement of revenues, expenditures and changes in fund balances	*Statement of Net Assets *Statement of cash flows	*Statement of Fiduciary Net Assets
Accounting basis and measurement	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both financial and capital, short-term and long-term	Accrual accounting and economic resources focus.
Type of asset/liability information	All asset and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, or capital assets included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both financial and long-term	All assets and liabilities, both short-term and long-term. The Agency's funds do not currently contain capital assets, but they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year, expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

These two statements report the District's net assets and changes in them. The District's net assets (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 assets 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.

Management's Discussion and Analysis
Hughes Springs Independent School District
For the Fiscal Year Ended August 31, 2012

-UNAUDITED-

In the Statement of Net Assets and the Statement of Activities, the District's activities are presented as:

Governmental activities—most of the District's basic services are reported here, including the 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 16 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 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's two kinds of funds—governmental and proprietary—use different accounting approaches.

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

Proprietary funds—the internal service funds report activities that provide supplies and services for the District's other programs and activities—such as the District's self-insurance programs.

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 Assets on page 23. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

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

Net assets of the District's governmental activities increased from \$11,480,118 to \$12,756,781. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – were \$9,442,116 at August 31, 2012. This increase in governmental net assets was the result of the District's revenues exceeding the expenditures.

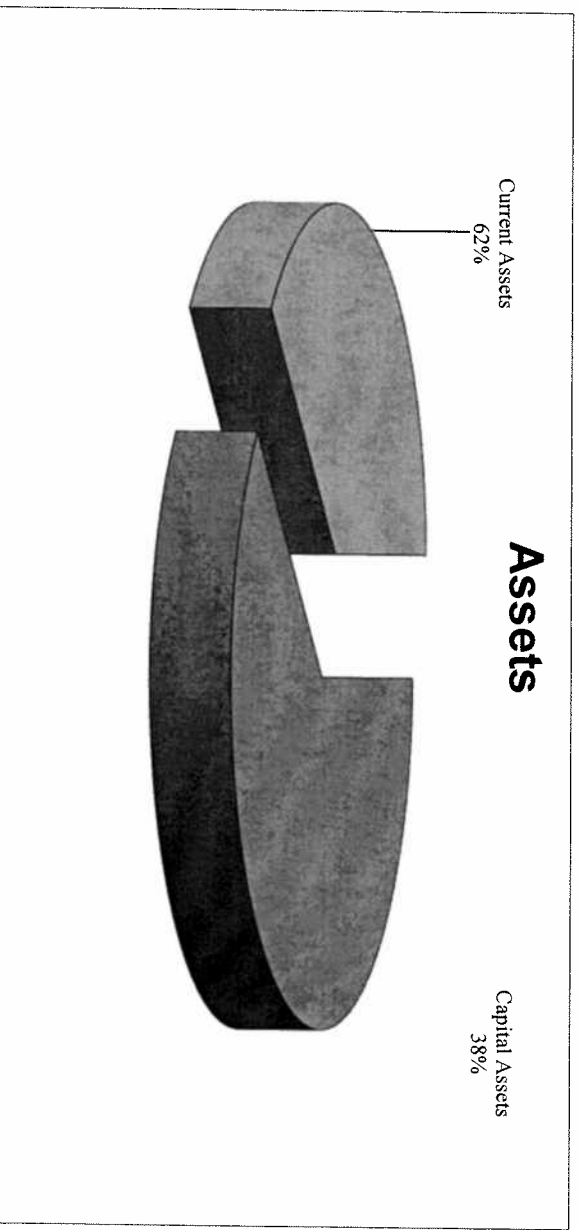
**Management's Discussion and Analysis
Hughes Springs Independent School District
For the Fiscal Year Ended August 31, 2012**

-UNAUDITED-

**Table I
Hughes Springs Independent School
District**

NET ASSETS

	Governmental Activities 2012	Governmental Activities 2011
Current and other assets	\$9,857,797	\$8,759,001
Capital assets	5,964,151	6,025,949
Total assets	<u>15,821,948</u>	<u>14,784,950</u>
Long-term liabilities	2,692,664	2,806,011
Other liabilities	372,503	498,820
Total liabilities	<u>3,065,167</u>	<u>3,304,831</u>
Net Assets:		
Invested in capital assets net of related debt	3,271,487	3,219,938
Restricted	43,178	34,566
Unrestricted	9,442,116	8,225,615
Total net assets	<u>\$12,756,781</u>	<u>\$11,480,119</u>



**Management's Discussion and Analysis
Hughes Springs Independent School District
For the Fiscal Year Ended August 31, 2012**

-UNAUDITED-

**Table II
Hughes Springs Independent School
District**

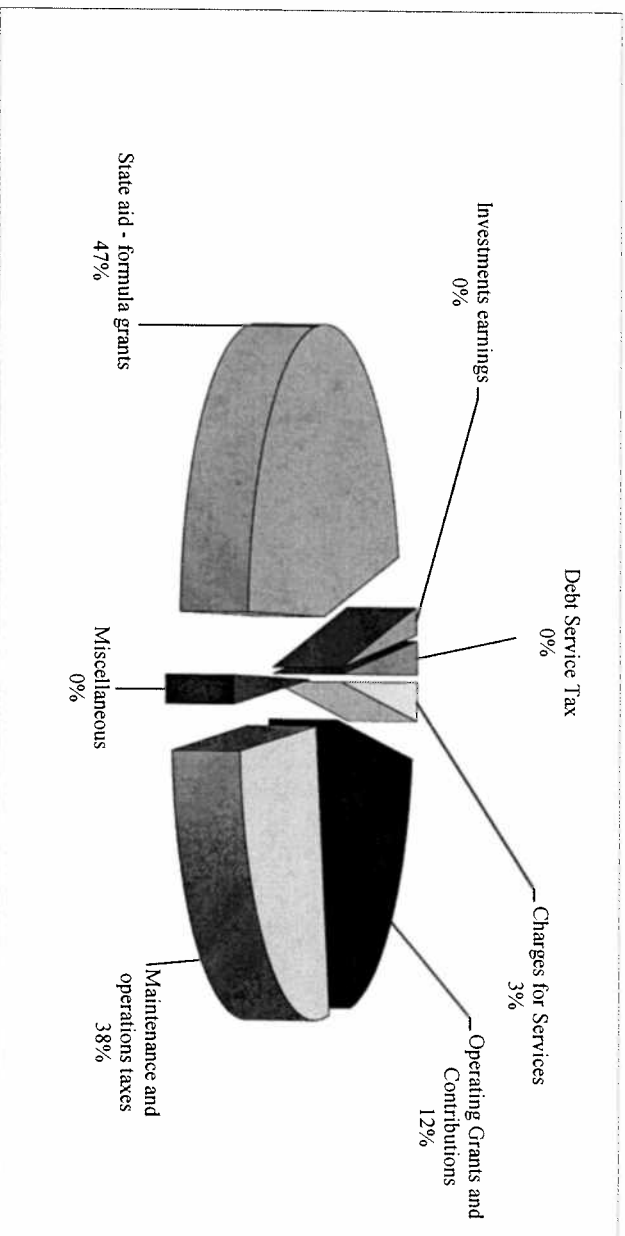
CHANGES IN NET ASSETS

	Governmental Activities 2012	Governmental Activities 2011
Revenues:		
Program Revenues:		
Charges for Services	\$312,374	\$320,978
Operating grants and contributions	1,300,307	1,585,623
General Revenues:		
Maintenance and operations taxes	4,159,355	3,881,593
State aid – formula grants	5,223,839	5,363,563
Investment Earnings	25,373	38,351
Miscellaneous	52,354	23,554
Total Revenue	11,073,602	11,213,662
Expenses:		
Instruction, curriculum and media services	5,367,676	5,577,668
Instructional and school leadership	539,109	495,172
Student support services	591,909	635,931
Child nutrition	544,275	535,208
Curricular activities	628,468	708,436
General administration	435,309	413,164
Plant maintenance, security & data processing	1,378,460	1,539,497
Debt services	134,706	140,519
Payments to Fiscal Agent	177,027	194,051
Total Expenses	9,796,939	10,239,646
Increase in net assets before transfers and special items	1,276,663	974,016
Beginning net assets at 9/01	11,480,118	10,519,232
Prior Period Adjustment		(13,130)
Ending net assets at 8/31	\$12,756,781	\$11,480,118

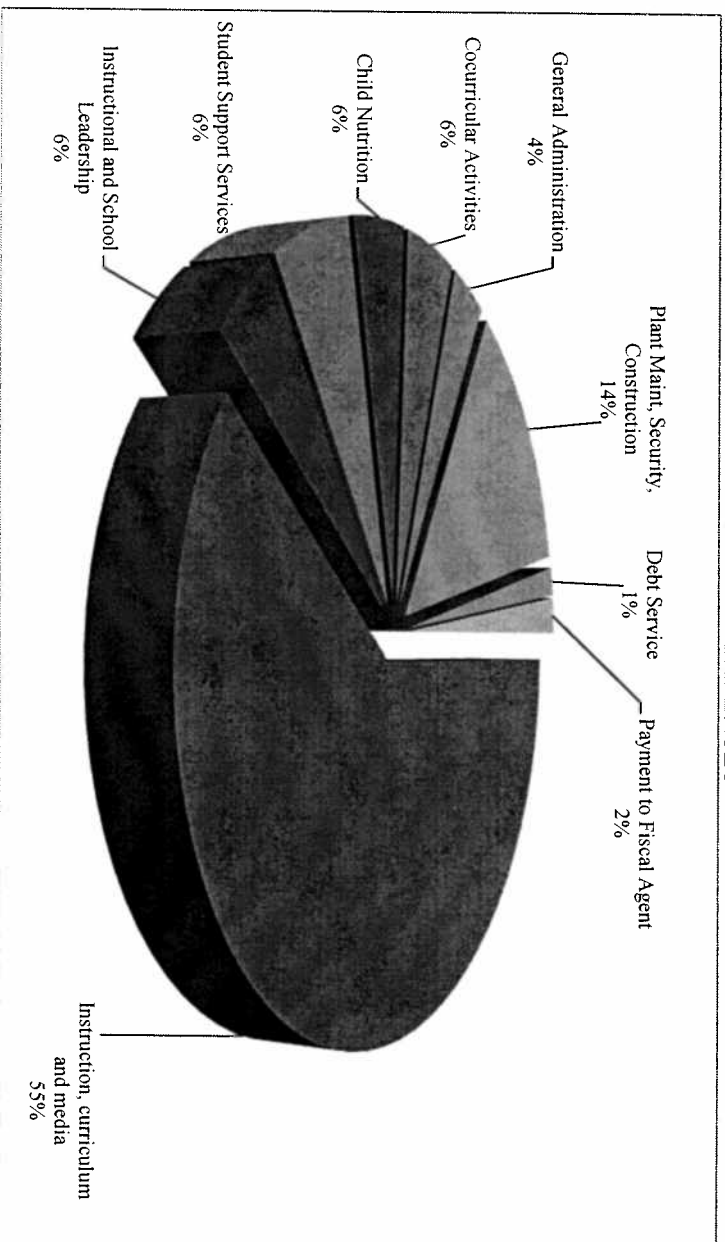
**Management's Discussion and Analysis
Hughes Springs Independent School District
For the Fiscal Year Ended August 31, 2012**

-UNAUDITED-

**TABLE II
CHART A – REVENUES**



**TABLE II
CHART B – EXPENSES**



**Management's Discussion and Analysis
Hughes Springs Independent School District
For the Fiscal Year Ended August 31, 2012**

-UNAUDITED-

The District's total revenues decreased by 1.24%. The total cost of all programs and services decreased by 4.32%. Most of the decreases were the results of lower cost in instructional, curriculum and media.

- The District's ADA increased from the prior year.

The cost of all governmental activities this year was \$ 9,796,939. As shown in the Statement of Activities on page 15, the amount that our taxpayers ultimately financed for these activities through District taxes was \$2,882,692 because some of the costs were paid by those who directly benefited from the programs (\$312,374) or by other governments and organizations that subsidized certain programs with grants and contributions (\$1,300,307) or by unrestricted grants and other revenue (\$5,301,566).

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$9,275,055, which is more than last year's total of \$8,038,324. Included in this year's total change in fund balance is an increase of \$1,249,405 in the District's General Fund.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into two categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 2011). The second category involved amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

The District's General Fund balance of \$9,173,708 reported on pages 16 and 43 differs from the General Fund's budgetary fund balance of \$8,630,843 reported in the budgetary comparison schedule on page 43.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2012, the District had \$25,395,119 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. There was a net increase in capital assets of \$515,841 over last year. The increase was primarily construction for new and renovation of facilities, equipment and vehicles.

The District's fiscal year 2013 has plans for major capital asset expenditures. More detailed information about the District's capital assets is presented in Note IV-F to the financial statements.

**Management's Discussion and Analysis
Hughes Springs Independent School District
For the Fiscal Year Ended August 31, 2012**

-UNAUDITED-

Debt

At year-end, the District had outstanding bonds of \$2,685,000, which was a decrease of \$100,000.

The District has copiers under capital leases. Interest rates for the copiers 10.5% and all are 48 or 60 month leases. At year-end, the District had outstanding lease payments of \$7,664.

ECONOMIC FACTORS AND NEXT YEARS BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2013 budget and tax rates.

These indicators were taken into account when adopting the General Fund budget for 2013. Amounts appropriated in the General Fund budget are \$9,079, an increase as the final 2012 budget of \$8,773,183. Property taxes (up due to an increase in assessed valuation) account for part of the increase in available revenue. ADA is up which also accounts for the increase in available revenue. If these estimates are realized, the District's budgetary General Fund balance is expected to remain close to the same at the close of 2013. More importantly, however, this will have been accomplished in spite of unfunded mandates.

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's business office, at Hughes Springs Independent School District, 871 Taylor St., Hughes Springs, Texas.

BASIC FINANCIAL STATEMENTS

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET ASSETS
AUGUST 31, 2012

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 9,168,718
1220 Property Taxes Receivable (Delinquent)	237,636
1230 Allowance for Uncollectible Taxes	(14,258)
1240 Due from Other Governments	422,469
1300 Inventories	43,232
Capital Assets:	
1510 Land	100,050
1520 Buildings, Net	4,275,093
1530 Furniture and Equipment, Net	1,589,008
1000 Total Assets	15,821,948
LIABILITIES	
2110 Accounts Payable	34,245
2160 Accrued Wages Payable	231,246
2180 Due to Other Governments	105,885
2300 Deferred Revenues	1,127
Noncurrent Liabilities	
2501 Due Within One Year	108,032
2502 Due in More Than One Year	2,584,632
2000 Total Liabilities	3,065,167
NET ASSETS	
3200 Invested in Capital Assets, Net of Related Debt	3,271,487
3850 Restricted for Debt Service	8,589
3870 Restricted for Campus Activities	34,589
3900 Unrestricted Net Assets	9,442,116
3000 Total Net Assets	\$ 12,756,781

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

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2012

EXHIBIT B-1

Data Control Codes	Program Revenues			Primary Gov. Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
	1	3	4		
	Expenses	Charges for Services	Operating Grants and Contributions		
Primary Government:					
GOVERNMENTAL ACTIVITIES:					
11	Instruction	\$ 5,206,834	\$ 90,547	\$ 704,647	\$ (4,411,640)
12	Instructional Resources and Media Services	70,264	-	2,826	(67,438)
13	Curriculum and Staff Development	90,578	-	4,007	(86,571)
23	School Leadership	539,109	-	29,373	(509,736)
31	Guidance, Counseling and Evaluation Services	90,949	-	4,739	(86,210)
32	Social Work Services	61,681	-	4,039	(57,642)
33	Health Services	61,926	-	3,499	(58,427)
34	Student (Pupil) Transportation	377,353	-	10,160	(367,193)
35	Food Services	544,275	142,078	410,434	8,237
36	Extracurricular Activities	628,468	59,652	53,297	(515,519)
41	General Administration	435,309	20,097	15,417	(399,795)
51	Facilities Maintenance and Operations	1,107,575	-	48,235	(1,059,340)
52	Security and Monitoring Services	31,049	-	1,797	(29,252)
53	Data Processing Services	239,836	-	7,837	(231,999)
72	Debt Service - Interest on Long Term Debt	134,275	-	-	(134,275)
73	Debt Service - Bond Issuance Cost and Fees	431	-	-	(431)
93	Payments related to Shared Services Arrangements	69,172	-	-	(69,172)
99	Other Intergovernmental Charges	107,855	-	-	(107,855)
[TP] TOTAL PRIMARY GOVERNMENT:		\$ 9,796,939	\$ 312,374	\$ 1,300,307	\$ (8,184,258)
Data Control Codes					
General Revenues:					
Taxes:					
MT	Property Taxes, Levied for General Purposes				4,159,355
GC	Grants and Contributions not Restricted				5,223,839
IE	Investment Earnings				25,373
MI	Miscellaneous Local and Intermediate Revenue				52,354
TR	Total General Revenues				9,460,921
CN	Change in Net Assets				1,276,663
NB	Net Assets--Beginning				11,480,118
NE	Net Assets--Ending				\$ 12,756,781

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

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2012

EXHIBIT C-1

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110	\$ 9,052,630	\$ 76,009	\$ 9,128,639
1220	230,596	7,040	237,636
1230	(13,836)	(422)	(14,258)
1240	263,101	159,368	422,469
1260	181,344	1,842	183,186
1300	20,342	22,890	43,232
1000	<u>\$ 9,734,177</u>	<u>\$ 266,727</u>	<u>\$ 10,000,904</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
2110	\$ 32,818	\$ 1,427	\$ 34,245
2160	218,137	13,109	231,246
2170	-	143,107	143,107
2180	105,885	-	105,885
2300	203,629	7,737	211,366
2000	<u>\$ 560,469</u>	<u>\$ 165,380</u>	<u>\$ 725,849</u>
Fund Balances:			
Nonspendable Fund Balance:			
3410	12,342	22,890	35,232
Restricted Fund Balance:			
3430	-	43,178	43,178
3480	-	8,589	8,589
3490	-	26,690	26,690
Committed Fund Balance:			
3510	2,500,000	-	2,500,000
3530	850,000	-	850,000
3540	16,706	-	16,706
3545	1,167,000	-	1,167,000
3600	4,627,660	-	4,627,660
3000	<u>\$ 9,173,708</u>	<u>\$ 101,347</u>	<u>\$ 9,275,055</u>
4000	<u>\$ 9,734,177</u>	<u>\$ 266,727</u>	<u>\$ 10,000,904</u>

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

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
 STATEMENT OF NET ASSETS
 AUGUST 31, 2012

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$	9,275,055
<hr/>		
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 assets. The net effect of this consolidation is to increase(decrease) net assets.		-
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$24,879,278 and the accumulated depreciation was \$18,853,329. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net assets.		3,219,938
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2012 capital outlays and debt principal payments is to increase (decrease) net assets.		672,770
4 The 2012 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net assets.		(621,221)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.		210,239
19 Net Assets of Governmental Activities		\$ 12,756,781
		12,756,781

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

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	10		Total Governmental Funds	
	General Fund	Other Funds		
REVENUES:				
5700	Total Local and Intermediate Sources	\$ 4,399,481	\$ 186,989	\$ 4,586,470
5800	State Program Revenues	5,650,299	28,046	5,678,345
5900	Federal Program Revenues	-	820,404	820,404
5020	Total Revenues	10,049,780	1,035,439	11,085,219
EXPENDITURES:				
Current:				
0011	Instruction	4,683,982	438,016	5,121,998
0012	Instructional Resources and Media Services	74,533	-	74,533
0013	Curriculum and Instructional Staff Development	90,578	-	90,578
0023	School Leadership	539,109	-	539,109
0031	Guidance, Counseling and Evaluation Services	90,949	-	90,949
0032	Social Work Services	61,681	-	61,681
0033	Health Services	61,926	-	61,926
0034	Student (Pupil) Transportation	448,226	-	448,226
0035	Food Services	-	541,247	541,247
0036	Extracurricular Activities	415,935	43,549	459,484
0041	General Administration	449,107	-	449,107
0051	Facilities Maintenance and Operations	974,331	25,301	999,632
0052	Security and Monitoring Services	31,049	-	31,049
0053	Data Processing Services	245,209	-	245,209
Debt Service:				
0071	Principal on Long Term Debt	13,347	100,000	113,347
0072	Interest on Long Term Debt	1,200	133,075	134,275
0073	Bond Issuance Cost and Fees	431	-	431
Capital Outlay:				
0081	Facilities Acquisition and Construction	208,680	-	208,680
Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of SSA	69,172	-	69,172
0099	Other Intergovernmental Charges	107,855	-	107,855
6030	Total Expenditures	8,567,300	1,281,188	9,848,488
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	1,482,480	(245,749)	1,236,731
OTHER FINANCING SOURCES (USES):				
7915	Transfers In	-	233,075	233,075
8911	Transfers Out (Use)	(233,075)	-	(233,075)
7080	Total Other Financing Sources (Uses)	(233,075)	233,075	-
1200	Net Change in Fund Balances	1,249,405	(12,674)	1,236,731
0100	Fund Balance - September 1 (Beginning)	7,924,303	114,021	8,038,324
3000	Fund Balance - August 31 (Ending)	\$ 9,173,708	\$ 101,347	\$ 9,275,055

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

HUGHES SPRINGS 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, 2012

EXHIBIT C-4

Total Net Change in Fund Balances - Governmental Funds	\$ 1,236,731
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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 net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net assets.

672,770

Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2012 capital outlays and debt principal payments is to increase (decrease) net assets.

(621,221)

Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net assets.

(11,617)

Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing deferred revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net assets.

Change in Net Assets of Governmental Activities	\$ 1,276,663
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The notes to the financial statements are an integral part of this statement.

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 AUGUST 31, 2012

EXHIBIT D-1

	Governmental Activities -	Internal Service Fund
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 40,079	
Total Assets	40,079	
LIABILITIES		
Current Liabilities:		
Due to Other Funds	40,079	
Total Liabilities	40,079	

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

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2012

	Governmental Activities -	Internal Service Fund
OPERATING REVENUES:		
Local and Intermediate Sources	\$ 4,223	
Total Operating Revenues	4,223	
OPERATING EXPENSES:		
Payroll Costs		4,223
Total Operating Expenses		4,223

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

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2012

	Governmental Activities -
	Internal
	Service Fund
<hr/>	
Net Increase in Cash and Cash Equivalents	8,871
Cash and Cash Equivalents at Beginning of Year	31,208
	<hr/>
Cash and Cash Equivalents at End of Year	\$ 40,079
	<hr/> <hr/>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income (Loss):	\$ -
	<hr/>
Effect of Increases and Decreases in Current	
Assets and Liabilities:	
Increase (decrease) in Due to Other Funds	8,871
Net Cash Provided by Operating	
Activities	<hr/> <hr/>
<u>Reconciliation of Total Cash and Cash Equivalents:</u>	
Cash and Cash Equivalents on Balance Sheet	\$ 40,079
	<hr/> <hr/>
	\$

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

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
AUGUST 31, 2012

EXHIBIT E-1

	Agency Funds
ASSETS	
Cash and Cash Equivalents	\$ 68,291
Total Assets	<u>\$ 68,291</u>
LIABILITIES	
Due to Student Groups	\$ 68,291
Total Liabilities	<u>\$ 68,291</u>

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

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Hughes Springs Independent School District (the "District") is a public education agency operating under the applicable laws and regulations of the state of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its financial statements in conformity with generally accepted accounting principles promulgated by Governmental Accounting Standards Board and other authoritative sources identified in *Statements on Auditing Standards No. 69* of the American Institute of Public Accountants and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Assets and the Statement of Activities are government-wide financial statements. They report information on all of the Hughes Springs Independent School District's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by 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 a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the direct expense to each function.

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

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.

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

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

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

Fund Financial Statements -- Governmental fund financial statements use the *current financial resources measurement focus* and the *modified accrual 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 increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available. For this purpose, the District considers revenue available if they are collected within 60 days of the end of the current fiscal period. It recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due. 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.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as 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 deferred revenues 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.

D. FUND ACCOUNTING

The District reports its financial activities through the use of "fund accounting." The activities of the District are organized on the basis of funds. The operations of each fund are accounted for within a separated set of self-balancing accounts to reflect results of activities. Fund accounts segregates funds according to their intended purpose and are used to assist management in demonstrating compliance with finance-related legal and contractual provisions. As required by the Texas Education Agency, the following fund types are included in the financial statements.

Governmental Funds

The District reports the following major governmental funds:

1. **The General Fund** – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

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

Governmental Funds:

1. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
2. **Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District's Internal Service Fund is Worker's Compensation Self-funded Insurance.
3. **Debt Service Fund** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Fiduciary Funds:

1. **Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the Student Activity Fund.

E. ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

1. Cash and Cash Equivalent

The District's Cash Management and Investment Policy requires all deposits to be fully collateralized with depository insurance; obligations of the United States of America or its agencies and instrumentalities (excluding those mortgaged backed securities prohibited by the Public Funds Investments Act); public fund investment pools; or in any manner and amount provided by law for deposits of the District. At all times, such securities are to have a fair value of not less than 110 percent of the amount of the deposits collateralized, adjusted by at amount of applicable depository insurance.

The District considers highly liquid investments to be cash equivalents if they have maturity of three months or less when purchased. All other monetary assets are treated as investments including certificate of deposit, investment pools, money market investments, and other securities defined under the Public Funds Investment Act.

2. Investments

Investments are stated at fair value, which is the amount at which the investment can be exchanged in a current transaction between willing parties. Management of the District believes that in the areas of investment practice, management reports, and establishment of appropriate policies, the District adhered to the requirements of the State of Texas Public Funds Investment Act. Additionally, management of the District believes that investment practices of the District were in accordance with local policies.

3. Receivables and Payables

All trade and property tax receivables are shown at face value. The property tax receivable allowance is shown at 6.00 percent of outstanding property tax at August 31, 2012.

**HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012**

4. Inventories

Inventories of supplies on the balance sheet are valued at first in/first out (FIFO) method and include consumable maintenance, instructional, and office items. Supplies are recorded as expenditures when they are purchased. If any supplies are on hand at the end of the year, their total cost is recorded as inventory and the fund balance is reserved for the same amount.

5. Grant Fund Accounting

The Special revenue Fund includes programs that are financed on a project grant basis. These projects have grant periods that can range from less than twelve months to in excess of two years. Grants are recorded as revenues when earned, which the District considers to be earned to the extent expenditures have been incurred, the District has met all eligibility requirements, and funds are available.

6. Long-term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts are deferred and amortized over the life of the bonds. Amounts recorded as long-term debt represent obligations that will be met by future revenue resources that are not available as of the current balance sheet date.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance cost, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Compensated Absences

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying basic financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying basic financial statements.

8. Capital Assets

Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental column 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 two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

**HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012**

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

Buildings	20-50
Building Improvements	20-50
Vehicles	5-10
Office Equipment and Furniture	5-10
Computer Equipment	3-5

The District has no restriction on any assets.

9. Self-Insured Workers Compensation

During the year, the District participated in a public entity risk pool for workers' compensation insurance. The plan was established pursuant to Texas Revised Code Statutes Annotated Art. 8309h and Texas Government code, Ch 791.

10. Interfund Transactions

Activities between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as due to/from other funds. All balances between funds are reported as transfers. See Note IV-D for additional discussion of interfund receivables and payables.

A description of the basic types of Interfund transactions and the related accounting policies are as follows:

For reporting at the government-wide financial statement level, the District eliminates direct interfund charges for services and the balances created within the same activity categories (i.e. governmental vs. business-type). This process ensures neither governmental nor business-type activities report direct internal revenue/expenditures. Interfund activity and balances resulting from transactions with the fiduciary funds are not eliminated. Instead, the fiduciary interfund activity and balances are treated as transactions with an external party. The Internal Service Fund is essentially repository for income, expenses, assets and liabilities of the District's workers' compensation.

11. Fund Equity

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).

Restricted fund balance - amounts constrained to specific purposes by their provider (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance - amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.

Assigned fund balance - amounts a government intends to use for a specific purpose; intent can be expressed by the governing body.

As of August 31, 2012 Nonspendable Fund Balance includes \$35,232 for inventories. Restricted Fund Balance includes \$43,178 for federal or state grants, \$8,589 for Retirement of Long-Term Debt, and \$26,690 for Other Restricted Fund Balance. Committed Fund Balance includes \$16,706 for self-insurance and \$2,500,000 for Construction, \$850,000 for Capital Expenditures for Equipment, and \$1,167,000 for Other Committed Funds.

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012

12. Control Totals

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.

13. Estimates and Assumptions

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

14. Application of FASB Pronouncements

As to business-type activities and enterprise funds, the District applies all applicable GASB pronouncements as well as FASB. APB and ARB pronouncements issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements.

15. Internal Service Funds

Since Internal Service Funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the District as a whole.

16. Application of Restricted or Unrestricted Assets

During the budgeting process, allocation of expenses are determined as to whether it originated following specific guidelines related to restricted assets retained in the fund or whether for other purposes (non-restricted). Restricted assets will be used before unrestricted assets when payments are budgeted for an expenditures, which meets the specific guidelines, set forth by the granting agency.

NOTE II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net assets for governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

**HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012**

Capital Assets at the Beginning of the year	Historic Cost	Accumulated Depreciation	Net Value at the Beginning of the Year	Change in Net Assets
Land	100,050		100,050	
Buildings	21,473,207	16,980,761	4,492,446	
Furniture & Equipment	3,306,021	1,872,568	1,433,453	
Change in Net Assets				6,025,949
Long-term Liabilities at the Beginning of the year			Payable at the Beginning of the Year	
Bonds Payable				2,785,000
Lease Payable				21,011
Change in Net Assets				<u>2,806,011</u>
Net Adjustment to Net Assets				<u>3,219,938</u>

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net assets of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net assets. The details of this adjustment are as follows:

	Amount	Adjustments to Changes in Net to Assets	Adjustments Net Assets
<u>Current Year Capital Outlay</u>			
Buildings & Improvements	199,184		<u>199,184</u>
Furniture & Equipment	<u>360,239</u>		<u>360,239</u>
Total Capital Outlay	<u>559,423</u>	<u>559,423</u>	<u>559,243</u>
<u>Debt Principal Payments</u>			
Bond Principal	100,000		100,000
Lease Principal	<u>13,347</u>		<u>13,347</u>
Total Principal Payments	<u>113,347</u>	<u>113,347</u>	<u>113,347</u>
Total Adjustment to Net Assets		<u>\$672,770</u>	<u>\$672,770</u>

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this adjustment are as follows:

**HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012**

	<u>Amount</u>	<u>Adjustments to Change in Net Assets</u>	<u>Adjustments to Net Assets</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	74,005	(74,005)	
Uncollected taxes (assumed collectible) from Current Year Levy	62,388	62,388	62,388
Uncollected Taxes (assumed collectible) from Prior Year Levy	147,851		147,851
Other Miscellaneous Adjustments		-0-	-0-
Total		<u>\$(11,617)</u>	<u>\$ 210,239</u>

NOTE III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund, which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures compared to actual revenues and expenditures for each of these funds. The District compares the final amended budgeted to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports are in Exhibit J-3 and J-4.

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

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to September 1, the Board legally enacts the budget through passage of a resolution. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are 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. There were no significant amendments.
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. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

**HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012**

	August 31, 2012
	<u>Fund Balance</u>
Appropriated Budget Funds – Food Service Special Revenue Fund	\$66,068
Campus Activity	26,690
Nonappropriated Budget Funds	<u>-0-</u>
All Special Revenue Funds	<u>\$92,758</u>

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. End-of-year outstanding encumbrances that were provided for in the subsequent year's budget are presented below:

General Fund	\$-0-
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A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at August 31, 2012.

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded final budget in Fund 240 Child Nutrition Fund in function 35. However, the aggregate actual expenditures did not exceed the aggregate budgeted expenditures.

NOTE IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITORY CONTRACT LAW

The funds of the District must be deposited and invested under terms of a contract, contents of which are set out in the **Depository Contract Law**. The depository bank places approved pledged securities for safekeeping and trust with the District's agency bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

At August 31, 2012, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts) \$9,112,009 and the bank balance was \$9,380,882. The District's combined deposits were fully insured at all times by federal depository insurance or collateralized with securities pledged to the District and held by the District's agent. The TEA maintains copies of all safekeeping receipts in the name of the District.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: 1st National Bank of Hughes Springs, Hughes Springs, Texas
- b. The fair market value of collateral held by a third party bank in depository bank's name and specifically noted by the third party bank as pledged to the District, as of the date of the highest combined balance on deposit was: \$13,068,507.
- c. The largest combined balances of cash, savings, and time deposit accounts amounted to \$ 11,048,317 and occurred during the month of February 2012.

**HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012**

- d. The total amount of FDIC coverage at the time of the largest combined balance was \$ 258,581.
- e. The amount of unsecured deposits was \$-0-.

District Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy:

Custodial Credit Risk - Deposits: State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. Authorized collateral to secure funds must be by eligible securities to the extent and in the manner required by the Public Funds Collateral Act. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the District complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk: The district does not invest in foreign currency, therefore has no foreign currency risk.

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. Since the government invests in only external investment pools that meet the requirements of Government Code 2256.016 and 2256.019 that have no custodial credit risk for investments.

The District invests in an external investment pool. Financial reports issued by the pool can be obtained from First Public, LLC, 7620 Guadalupe, Austin, TX 78752. The pool is registered with the SEC and has an AAA rating.

The District's investments at August 31, 2012 are shown below:

	<u>Fair Value</u>	<u>Weighted Average Maturity</u> <u>(Years)</u>	
<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>	<u>More</u>
	<u>Value</u>	<u>Less than 1</u>	<u>1-5</u>
		<u>6-10</u>	<u>Than 10</u>
Lone Star Investment Pool	<u>\$125,003</u>	<u>\$125,003</u>	
Total	<u>\$125,003</u>	<u>\$125,003</u>	

The **Public Funds Investments Act** (Government Code Chapter 2256) contains specific provisions in the area of investment practice, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy addresses the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments (4) acceptable risk levels, (5) expected rate of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity date for the portfolio, (8) investment staff quality and capability, (9) and bid solicitation preferences for certificate of deposits. Statutes authorize the District to invest in (1) obligation of the U.S. Treasury; certain U.S. agencies; and the State of Texas; (2) certificate of deposits; (3) certain municipal securities; (4) money market savings accounts; (5) repurchase agreements; (6) bankers acceptance; (7) Mutual Funds; (8)

**HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012**

Investments pools, (9) guaranteed investment contracts, (10) and common trust funds. Temporary investments are reported at cost, which approximates market, and are secured, when necessary, by the Federal Deposit Insurance Corporation (FDIC) or obligations of items 1-4 above at 102% of the investment's market value. The Act also requires the District to have an independent auditor 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.

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for real and personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are delinquent and subject to interest if not paid by February 1 of the year following the October 1 levy date. On June 30 of each year, a tax lien attaches to the property to secure payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

The tax rates assessed for the year ended August 31, 2012, to finance General Fund operations was \$1.119046 per \$ 100 valuation and Debt Service was 0.0000 per \$100 valuation. The assessed value of the property tax roll on August 1, 2011, upon which the levy for the 2011-12 fiscal year was based, was \$371,683,023. The roll was subsequently decreased to a year-end assessed value of \$374,037,618.

Current tax collections for the year ended August 31, 2012 were 99.82% of the year-end adjusted tax levy. As of August 31, 2012, property taxes receivable, net of estimated uncollectible taxes, totaled \$216,760 the General Fund and \$6,618 for the Debt Service Fund.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates for the year of the levy. Allowance 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.

D. INTERFUND PAYABLES AND RECEIVABLES AND TRANSFERS

Interfund balances at August 31, 2012, consisted of the following individual fund receivables and payables:

	Due to Other Funds	Due from Other Funds
General Fund:		
Special Revenue Fund	\$ -0-	\$ 143,108
Internal Service		38,236
Special Revenue		
Internal Service	143,108	1,842
Internal Service Fund		
General & Special Funds	40,078	
Total	\$ 183,186	\$ 183,186

**HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012**

Interfund transfers at August 31, 2012, consisted of the following individual fund:

	Transfers to Other Funds	Transfer from Other Funds
General Fund:		
Debt Service Fund	\$ 233,075	\$ -0-
Debt Service:		
General Fund	-0-	233,075
Total	\$ 233,075	\$ 233,075

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2012, were as follows:

	<u>Property Taxes-net</u>	<u>Other Governments</u>	<u>Due From Other Funds</u>	<u>Other</u>	<u>Total Receivables</u>
Governmental Activities:					
General Fund	\$ 216,760	\$ 263,101	\$ 181,344	\$ -0-	\$ 661,205
Nonmajor Governmental Funds	<u>6,618</u>	<u>159,368</u>	<u>1,842</u>	<u>-0-</u>	<u>167,828</u>
Total - Governmental Activities	<u>\$ 223,378</u>	<u>\$ 422,469</u>	<u>\$ 183,186</u>	<u>\$ -0-</u>	<u>\$ 829,033</u>
Amounts not scheduled for collection during the subsequent year	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-

Payables at August 31, 2012, were as follows:

	<u>Accounts</u>	<u>Salaries and Benefits</u>	<u>Due To Other Funds</u>	<u>Due to Other Governments</u>	<u>Other</u>	<u>Total Payables</u>
Governmental Activities:						
General Fund	\$ 32,818	\$ 218,137	\$ -0-	\$ 105,885	\$ -0-	\$ 356,840
Nonmajor Gov. Fund	<u>1,427</u>	<u>13,109</u>	<u>143,107</u>	<u>-0-</u>	<u>-0-</u>	<u>157,643</u>
Total - Gov. Activities	<u>\$ 34,245</u>	<u>\$ 231,246</u>	<u>\$ 143,107</u>	<u>\$ 105,885</u>	<u>\$ -0-</u>	<u>\$ 514,483</u>
Amounts not scheduled for payment during the subsequent year	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-	\$ -0-

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended August 31, 2012, was as follows:

	Balance 9/1/11	Addition	<u>Primary Government Deletions</u>	Balance 8/31/12
Land	\$ 100,050	\$ -0-	\$ -0-	\$ 100,050
Buildings	21,473,207	199,184	-0-	21,672,391
Furniture & Equipment	3,306,021	360,239	43,582	3,622,678
Total at Historical Cost	\$ 24,879,278	\$ 559,423	\$ 43,582	\$ 25,395,119

**HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012**

Less Accumulated			
Depreciation for:			
Buildings	\$ 16,980,761	\$ 416,537	\$ -0-
Furniture & Equipment	1,872,568	204,685	43,582
			<u>\$17,397,298</u>
			2,033,671
Total Accumulated Depreciation	<u>\$ 18,853,329</u>	<u>\$ 621,222</u>	<u>\$ 43,582</u>
			<u>\$19,430,969</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 186,072
Student Transportation	48,866
Media	1,146
Curricular/Extracurricular	199,942
Food Service	3,028
General Administration	27,591
Plant Maint & Operations	<u>154,577</u>
Total Depreciation Expense	<u>\$ 621,222</u>

G. LOANS PAYABLE

There were no loans at August 31, 2012.

H. BONDS PAYABLE

Bond indebtedness of the District is reflected in the General Long-term Debt Account Group, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. Long-term debt includes general obligation serial bonds. Bond premiums and discounts are amortized using the effective interest method.

The following is a summary of the changes in the District's general Long-term Debt Account Group for the year ended August 31, 2012:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 9/1/11	Issued	Retired	Amounts Outstanding 8/31/12
Unlimited Tax School Building Bond, Ser 2006	4.5-5.375	3,300,000	\$ 2,785,000	\$-0-	\$100,000	\$2,685,000
Total			<u>\$ 2,785,000</u>	<u>\$-0-</u>	<u>\$100,000</u>	<u>\$2,685,000</u>

Presented below is a summary of general obligation bond requirements to maturity:

Year Ended August 31,	Principal	Interest	Total Requirements
2013	105,000	128,462	233,462
2014	110,000	123,625	233,625
2015	115,000	118,563	233,563
2016	120,000	113,275	233,275
2017	125,000	107,216	232,216
2018-2022	735,000	434,203	1,169,203
2023-2027	930,000	240,994	1,170,994
2028-2029	<u>445,000</u>	<u>23,756</u>	<u>468,756</u>
Total	<u>\$2,685,000</u>	<u>\$1,290,094</u>	<u>\$3,975,094</u>

**HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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There are a number of limitations and restrictions contained in the various general obligation bonds indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2012.

I. COMMITMENTS UNDER LEASES

Operating Leases

Commitments under operating (noncapitalized) lease agreements for equipment provide for minimum future rental payments as of August 31, 2012, as follows:

Year Ended	Total
<u>August 31</u>	<u>Requirements</u>
2013	\$19,371
2014	16,186
2015	9,143
2016	-0-
2017	-0-
Total	<u>\$ 44,700</u>

Capital Leases

The District has entered into numerous capital leases for the purchase of copiers. The interest rate is 10.5%.

Presented below is a summary of capital lease obligations maturity:

Year Ended	Principal	Interest	Total
<u>August 31,</u>			<u>Requirements</u>
2013	\$3,032	\$ 206	\$3,238
2014	4,632	840	5,472
Total	<u>\$7,664</u>	<u>\$1,046</u>	<u>\$8,710</u>

J. CHANGES IN LONG-TERM LIABILITIES

Long-term activity for the year ended August 31, 2012, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activity:					
Bonds and Notes Payable:					
General Obligation Bonds	\$ 2,785,000	\$ -0-	\$ 100,000	\$ 2,685,000	\$ 105,000
Leases Payable	<u>21,011</u>	<u>-0-</u>	<u>13,347</u>	<u>7,664</u>	<u>3,032</u>
Governmental Activities					
Long-term Liabilities	<u>\$2,806,011</u>	<u>\$ -0-</u>	<u>\$113,347</u>	<u>\$ 2,692,664</u>	<u>\$ 108,032</u>

K. DEFINED BENEFIT PENSION PLAN

Plan Description: The District contributes to the Teacher Retirement System of Texas (TRS), a cost-sharing, multiple-employer defined benefit pension plan. TRS administers retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of the employees of the public school systems of Texas. The System operates primarily under the provisions of the Texas Constitution, Article XVI, Sec 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers

**HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012**

proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. TRS issues a public available financial report that includes financial statements and required supplementary information for the defined benefits pension plan. That report may be obtained by writing to the TRS Communication Department, 1000 Red River, Austin, Texas 78701-2600 or by calling (800) 223-8778 or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under TRS Publication heading.

Funding Policy. State law provides for fiscal years 2010, 2011 and 2012 a state contribution rate of 7.644% and a member contribution rate of 6.4%. In certain instances the reporting district (I.S.D., college, university, or state agency) is required to make all or a portion of the state's 6.0% contribution. Contribution requirements are not actuarially determined but are legally established each biennium 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 10.0% of the aggregate annual compensation of all members of the system during that fiscal year; (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS's 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. State contributions to TRS made on behalf of Hughes Springs Independent School District's employees for the years ended August 31, 2010, 2011 and 2012 were \$352,907, \$379,419, and \$355,737 respectively. Other contributions made from federal and private grants, from the District for salaries above the state minimum, and new members for the years ended August 31, 2010, 2011, and 2012 in the amount of \$79,828, \$61,328, and \$49,176 respectively.

L. HEALTH CARE COVERAGE

During the year ended August 31, 2012, employees of the Hughes Springs Independent School District were covered by a health insurance plan (the "plan"). The District's contribution for single employee coverage is \$262 per month. Employees, at their option, authorize payroll withholdings to pay contributions or premiums for dependents. All contributions were paid to a licensed insurer. The plan was authorized by Texas Education Code, Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

M. MEDICARE PART D and EARLY RETIREE REINSURANCE PROGRAM

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 the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments must be recognized as revenue and expenditures/expenses by each reporting entity. For the year ended August 31, 2012, Hughes Springs ISD recognized Medicare Part D on-behalf payments of \$13,795.

The Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55-64 and their covered dependents regardless of age. An "early retiree" is defined as a plan participant aged 55-64 who is not eligible for Medicare and is not covered by an active employee of the plan. For the year ended August 31, 2012, Hughes Springs recognized ERRP on-behalf payments of \$15,212.

**HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012**

N. DEFERRED REVENUE

Deferred revenue at year-end consisted of the following:

	General Fund	Special Revenue	Debt Service	Total
Net Property Taxes	\$203,629	\$-0-	\$6,610	\$211,239
Other Deferred Revenues	-0-	1,127	-0-	1,127
Totals	<u>\$203,629</u>	<u>\$1,127</u>	<u>\$6,610</u>	<u>\$211,366</u>

O. DUE FROM STATE AGENCY

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, 2012, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

	State Entitlements	Federal Grants	Total
	Fund	Fund	Fund
General	\$ 263,101	\$ -0-	\$ 263,101
Special Revenue	-0-	159,368	159,368
Total	<u>\$ 263,101</u>	<u>\$ 159,368</u>	<u>\$ 422,469</u>

P. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Special Revenue Fund	Debt Service Fund	Trust, Int Ser & Campus Act. Fund	Total
Property Taxes	\$4,155,708	\$ -0-	\$ 410	\$-0-	\$4,156,118
Food Sales	-0-	142,079	-0-	-0-	142,079
Investment Income	25,373	-0-	-0-	-0-	25,373
Penalties, interest and other tax related income	47,738	-0-	398	-0-	48,136
Co-curricular student activities	59,652	-0-	-0-	-0-	59,652
Other	111,010	648	-0-	47,677	159,335
Total	<u>\$ 4,399,481</u>	<u>\$142,727</u>	<u>\$ 808</u>	<u>\$47,677</u>	<u>\$4,590,693</u>

Q. COMMITMENTS AND CONTINGENCIES

(1) Litigation – The District may be subjected to loss contingencies arising principally in the normal course of operations. As of the report date, the District was not involved in any outstanding litigation.

(2) Grant Programs - The District participates in numerous state and Federal 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, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2012 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to

**HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012**

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.

R. RISK MANAGEMENT

In the normal course of operation the District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2012, the District purchased commercial insurance to cover general liabilities. For insured programs, there were no significant reductions in coverage in the past fiscal year, and no settlements exceeding insurance coverage for each of the past three fiscal years.

In management's estimation there are no current loss claims that exceed the maximum coverage or any material unfunded claim benefit obligation for self-insured insurance risk pool.

Workers' Compensation

The District contributed fixed cost \$9,990 to the fund for the year ended August 31, 2012. The District's loss fund maximum was \$18,758. The pool participated in claims exceeding the loss maximum up to \$350,000. Estimated claims incurred but not reported (IBNR) were calculated to be \$10,954.

Changes in the workers' compensation claims liability amounts in fiscal 2012 are represented below:

	<u>2012</u>	<u>2011</u>
Claims payable, beginning of fiscal year	\$14,658	\$23,756
Incurred claims and claims adjustment expenses for insured events of the current fiscal year	8,225	7,876
Decrease in provision for insured events of prior fiscal year	<u>(1,954)</u>	<u>(10,427)</u>
	\$20,929	\$21,205
Payments		
Claims attributable to insured events of current year	2,146	3,669
Claims attributable to insured events of the prior year's	<u>2,077</u>	<u>2,878</u>
Total Payments	<u>4,223</u>	<u>6,547</u>
Claims payable, end of fiscal year	<u>\$16,706</u>	<u>\$14,658</u>

S. JOINT VENTURE - SHARED SERVICE ARRANGEMENTS

The District participates in a cooperative program for Special Education with five other school districts. Although seventeen percent of the activity of the cooperative is attributable to Hughes Springs Independent School District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. Atlanta Independent School District is the fiscal agent manager and is responsible for all financial activities of the cooperative. The following table represents the revenues and expenditures attributable to Hughes Springs Independent School District's participation.

**HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2012**

Revenues	
5929 Revenue	\$326,364
Expenditures:	
6100 Payroll	205,645
6200 Consultants	28,200
6300 Supplies and Materials	7,350
6400 Other Operating	82,673
6600 Capital Outlay	2,496

T. SUBSEQUENT EVENTS

None Noted.

REQUIRED SUPPLEMENTARY INFORMATION

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2012

EXHIBIT G-1

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 4,166,135	\$ 4,166,135	\$ 4,399,481	\$ 233,346
5800	State Program Revenues	5,313,588	5,313,588	5,650,299	336,711
5020	Total Revenues	9,479,723	9,479,723	10,049,780	570,057
EXPENDITURES:					
Current:					
0011	Instruction	4,764,265	4,714,376	4,683,982	30,394
0012	Instructional Resources and Media Services	86,780	87,079	74,533	12,546
0013	Curriculum and Instructional Staff Development	94,375	92,506	90,578	1,928
0023	School Leadership	527,505	545,632	539,109	6,523
0031	Guidance, Counseling and Evaluation Services	87,000	95,560	90,949	4,611
0032	Social Work Services	61,890	62,890	61,681	1,209
0033	Health Services	64,035	65,035	61,926	3,109
0034	Student (Pupil) Transportation	461,155	464,894	448,226	16,668
0036	Extracurricular Activities	406,995	421,208	415,935	5,273
0041	General Administration	450,245	479,763	449,107	30,656
0051	Facilities Maintenance and Operations	1,005,905	1,002,187	974,331	27,856
0052	Security and Monitoring Services	27,140	35,140	31,049	4,091
0053	Data Processing Services	226,870	250,157	245,209	4,948
Debt Service:					
0071	Principal on Long Term Debt	50,000	36,736	13,347	23,389
0072	Interest on Long Term Debt	-	5,400	1,200	4,200
0073	Bond Issuance Cost and Fees	-	1,040	431	609
Capital Outlay:					
0081	Facilities Acquisition and Construction	100,000	210,205	208,680	1,525
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	75,500	75,500	69,172	6,328
0099	Other Intergovernmental Charges	150,000	127,875	107,855	20,020
6030	Total Expenditures	8,639,660	8,773,183	8,567,300	205,883
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	840,063	706,540	1,482,480	775,940
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out (Use)	-	-	(233,075)	(233,075)
7080	Total Other Financing Sources (Uses)	-	-	(233,075)	(233,075)
1200	Net Change in Fund Balances	840,063	706,540	1,249,405	542,865
0100	Fund Balance - September 1 (Beginning)	7,924,303	7,924,303	7,924,303	-
3000	Fund Balance - August 31 (Ending)	\$ 8,764,366	\$ 8,630,843	\$ 9,173,708	\$ 542,865

COMBINING SCHEDULES

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2012

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program
ASSETS				
1110	\$ 119	\$ -	\$ -	\$ 39,418
1220	-	-	-	-
1230	-	-	-	-
1240	51,699	-	-	9,801
1260	935	-	-	709
1300	-	-	-	22,890
1000	<u>\$ 52,753</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,818</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
2110	\$ -	\$ -	\$ -	\$ 1,427
2160	6,954	-	-	4,417
2170	45,799	-	-	906
2300	-	-	-	-
2000	<u>52,753</u>	<u>-</u>	<u>-</u>	<u>6,750</u>
Fund Balances:				
Nonspendable Fund Balance:				
3410	-	-	-	22,890
Restricted Fund Balance:				
3450	-	-	-	43,178
3480	-	-	-	-
3490	-	-	-	-
3000	<u>-</u>	<u>-</u>	<u>-</u>	<u>66,068</u>
4000	<u>\$ 52,753</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 72,818</u>

EXHIBIT H-1

255	287	410	461	Total	599	Total
ESEA II, A Training and Recruiting	Education Jobs Fund	State Textbook Fund	Campus Activity Funds	Nonmajor Special Revenue Funds	Debt Service Fund	Nonmajor Governmental Funds
\$ 74	\$ -	\$ 1,127	\$ 26,690	\$ 67,428	\$ 8,581	\$ 76,009
-	-	-	-	-	7,040	7,040
-	-	-	-	-	(422)	(422)
11,278	86,590	-	-	159,368	-	159,368
198	-	-	-	1,842	-	1,842
-	-	-	-	22,890	-	22,890
<u>\$ 11,550</u>	<u>\$ 86,590</u>	<u>\$ 1,127</u>	<u>\$ 26,690</u>	<u>\$ 251,528</u>	<u>\$ 15,199</u>	<u>\$ 266,727</u>
\$ -	\$ -	\$ -	\$ -	\$ 1,427	\$ -	\$ 1,427
1,738	-	-	-	13,109	-	13,109
9,812	86,590	-	-	143,107	-	143,107
-	-	1,127	-	1,127	6,610	7,737
<u>11,550</u>	<u>86,590</u>	<u>1,127</u>	<u>-</u>	<u>158,770</u>	<u>6,610</u>	<u>165,380</u>
-	-	-	-	22,890	-	22,890
-	-	-	-	43,178	-	43,178
-	-	-	-	-	8,589	8,589
-	-	-	26,690	26,690	-	26,690
-	-	-	26,690	92,758	8,589	101,347
<u>\$ 11,550</u>	<u>\$ 86,590</u>	<u>\$ 1,127</u>	<u>\$ 26,690</u>	<u>\$ 251,528</u>	<u>\$ 15,199</u>	<u>\$ 266,727</u>

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	
REVENUES:					
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ 142,727
5800	State Program Revenues	-	-	-	3,518
5900	Federal Program Revenues	141,744	44,488	693	406,916
5020	Total Revenues	141,744	44,488	693	553,161
EXPENDITURES:					
Current:					
0011	Instruction	141,744	44,488	693	-
0035	Food Services	-	-	-	541,247
0036	Extracurricular Activities	-	-	-	-
0051	Facilities Maintenance and Operations	-	-	-	25,301
Debt Service:					
0071	Principal on Long Term Debt	-	-	-	-
0072	Interest on Long Term Debt	-	-	-	-
6030	Total Expenditures	141,744	44,488	693	566,548
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	(13,387)
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	-	-	-
7080	Total Other Financing Sources (Uses)	-	-	-	-
1200	Net Change in Fund Balance	-	-	-	(13,387)
0100	Fund Balance - September 1 (Beginning)	-	-	-	79,455
3000	Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ 66,068

255	287	410	461	Total	599	Total
ESEA II,A Training and Recruiting	Education Jobs Fund	State Textbook Fund	Campus Activity Funds	Nonmajor Special Revenue Funds	Debt Service Fund	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 43,454	\$ 186,181	\$ 808	\$ 186,989
-	-	24,528	-	28,046	-	28,046
39,312	187,251	-	-	820,404	-	820,404
39,312	187,251	24,528	43,454	1,034,631	808	1,035,439
39,312	187,251	24,528	-	438,016	-	438,016
-	-	-	-	541,247	-	541,247
-	-	-	43,549	43,549	-	43,549
-	-	-	-	25,301	-	25,301
-	-	-	-	-	100,000	100,000
-	-	-	-	-	133,075	133,075
39,312	187,251	24,528	43,549	1,048,113	233,075	1,281,188
-	-	-	(95)	(13,482)	(232,267)	(245,749)
-	-	-	-	-	233,075	233,075
-	-	-	-	-	233,075	233,075
-	-	-	(95)	(13,482)	808	(12,674)
-	-	-	26,785	106,240	7,781	114,021
\$ -	\$ -	\$ -	\$ 26,690	\$ 92,758	\$ 8,589	\$ 101,347

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2012

	BALANCE SEPTEMBER 1 2011	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2012
STUDENT ACTIVITY FUND				
Assets:				
Cash and Temporary Investments	\$ 47,430	\$ 168,223	\$ 147,362	\$ 68,291
Liabilities:				
Due to Student Groups	\$ 47,430	\$ 168,223	\$ 147,362	\$ 68,291
TOTAL AGENCY FUNDS				
Assets:				
Cash and Temporary Investments	\$ 47,430	\$ 168,223	\$ 147,362	\$ 68,291
Liabilities:				
Due to Student Groups	\$ 47,430	\$ 168,223	\$ 147,362	\$ 68,291

REQUIRED T.E.A. SCHEDULES



HUGHES SPRINGS ISD
LEARNING. A LIFE. LONG COMMITMENT.



HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2012

Last 10 Years Ended August 31	(1)		(2)		(3)	
	Tax Rates		Debt Service		Assessed/Appraised Value for School Tax Purposes	
	Maintenance	Various	Various	Various	\$	Various
2003 and prior years						
2004	1.470000	0.901000	156,147,989			
2005	1.470000	0.878040	155,558,301			
2006	1.470000	0.053800	200,539,059			
2007	1.340000	0.049000	287,366,235			
2008	1.130000	0.063450	336,604,483			
2009	1.130000	0.000000	280,918,803			
2010	1.130000	0.000000	419,422,137			
2011	1.119046	0.000000	333,290,085			
2012 (School year under audit)	1.119046	0.000000	371,683,023			
1000	TOTALS					

EXHIBIT J-1

	(10) Beginning Balance 9/1/2011	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2012
\$	50,213	\$ -	\$ 1,787	\$ 84	\$ (5,808)	\$ 42,534
	10,353	-	241	15	(53)	10,044
	9,023	-	233	15	(53)	8,722
	7,947	-	524	16	(52)	7,355
	9,771	-	2,393	74	(213)	7,091
	16,717	-	3,908	206	(2,831)	9,772
	26,252	-	6,933	-	(2,577)	16,742
	34,817	-	14,529	-	1,701	21,989
	70,923	-	32,631	-	(111)	38,181
	-	4,159,304	4,088,661	-	4,563	75,206
\$	236,016	\$ 4,159,304	\$ 4,151,840	\$ 410	\$ (5,434)	\$ 237,636

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES FOR COMPUTATIONS OF INDIRECT COST FOR 2013-2014
 GENERAL AND SPECIAL REVENUE FUNDS
 AUGUST 31, 2012

EXHIBIT J-2

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

Account Number	Account Name	1	2	3	4	5	6	7
		(702) School Board	(703) Tax Collections	(701) Supt's Office	(750) Indirect Cost	(720) Direct Cost	(other) Miscellaneous	
611X-6146	PAYROLL COSTS							
6149	Leave for Separating Employees in Fn 41 & 53	-	-	146,671	171,095	-	-	317,766
6149	Leave - Separating Employees not in 41 & 53	-	-	-	-	-	-	-
6211	Legal Services	-	-	-	-	-	-	-
6212	Audit Services	-	-	-	19,300	-	-	19,300
6213	Tax Appraisal/Collection - Appraisal in Fn 99	-	109,928	-	-	-	-	109,928
6214	Lobbying	-	-	-	-	-	-	-
621X	Other Professional Services	5,510	-	4,016	46,499	-	-	56,025
6220	Tuition and Transfer Payments	-	-	-	-	-	-	-
6230	Education Service Centers	1,487	-	1,250	-	-	-	2,737
6240	Contr. Maint. and Repair	-	-	-	-	-	-	-
6250	Utilities	-	-	-	-	-	-	-
6260	Rentals	-	-	7	2,098	-	-	2,105
6290	Miscellaneous Contr.	-	-	-	-	-	-	-
6320	Textbooks and Reading	-	-	-	-	-	-	-
6330	Testing Materials	-	-	-	-	-	-	-
63XX	Other Supplies Materials	1,521	-	3,271	9,941	-	-	14,733
6410	Travel, Subsistence, Stipends	4,329	-	2,636	367	-	-	7,332
6420	Ins. and Bonding Costs	111	-	-	-	-	-	111
6430	Election Costs	-	-	-	-	-	-	-
6490	Miscellaneous Operating	4,701	-	11,150	11,075	-	-	26,926
6500	Debt Service	-	-	-	-	-	-	-
6600	Capital Outlay	-	-	-	-	-	-	-
6000	TOTAL	17,659	109,928	169,001	260,375	-	-	556,963

Total expenditures/expenses for General and Special Revenue Funds: (9) \$ 9,615,414

LESS: Deductions of Unallowable Costs

FISCAL YEAR		(10)	(11)	(12)	(13)	(14)
Total Capital Outlay (6600)		\$ 381,574				
Total Debt & Lease(6500)		36,161				
Plant Maintenance (Function 51, 6100-6400)		977,060				
Food (Function 35, 6341 and 6499)		222,349				
Stipends (6413)		-				
Column 4 (above) - Total Indirect Cost		260,375				

SubTotal:

Net Allowed Direct Cost 1,877,520

CUMULATIVE

Total Cost of Buildings before Depreciation (1520)	(15) \$ 21,672,391
Historical Cost of Building over 50 years old	(16) \$ -
Amount of Federal Money in Building Cost (Net of #16)	(17) \$ -
Total Cost of Furniture & Equipment before Depreciation (1530 & 1540)	(18) \$ 3,622,678
Historical Cost of Furniture & Equipment over 16 years old	(19) \$ -
Amount of Federal Money in Furniture & Equipment (Net of #19)	(20) \$ -

(8) NOTE A: No Function 53 expenditures are included in this report on administrative costs.
 \$107,855 in Function 99 expenditures for appraisal district costs are included in this report on administrative costs.

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
	REVENUES:				
5700	Total Local and Intermediate Sources	\$ 150,000	\$ 150,000	\$ 142,727	\$ (7,273)
5800	State Program Revenues	3,700	3,700	3,518	(182)
5900	Federal Program Revenues	376,311	376,311	406,916	30,605
5020	Total Revenues	530,011	530,011	553,161	23,150
	EXPENDITURES:				
0035	Food Services	506,056	533,156	541,247	(8,091)
0051	Facilities Maintenance and Operations	33,500	33,500	25,301	8,199
6030	Total Expenditures	539,556	566,656	566,548	108
1200	Net Change in Fund Balances	(9,545)	(36,645)	(13,387)	23,258
0100	Fund Balance - September 1 (Beginning)	79,455	79,455	79,455	-
3000	Fund Balance - August 31 (Ending)	\$ 69,910	\$ 42,810	\$ 66,068	\$ 23,258

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - DEBT SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2012

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
	REVENUES:				
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ 808	\$ 808
5020	Total Revenues	-	-	808	808
	EXPENDITURES:				
	Debt Service:				
0071	Principal on Long Term Debt	-	100,000	100,000	-
0072	Interest on Long Term Debt	-	133,075	133,075	-
6030	Total Expenditures	-	233,075	233,075	-
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(233,075)	(232,267)	808
	OTHER FINANCING SOURCES (USES):				
7915	Transfers In	-	-	233,075	233,075
7080	Total Other Financing Sources (Uses)	-	-	233,075	233,075
1200	Net Change in Fund Balances	-	(233,075)	808	233,883
0100	Fund Balance - September 1 (Beginning)	7,781	7,781	7,781	-
3000	Fund Balance - August 31 (Ending)	\$ 7,781	\$ (225,294)	\$ 8,589	\$ 233,883

*REPORTS ON
INTERNAL CONTROLS, COMPLIANCE
AND
FEDERAL AWARDS*



HUGHES SPRINGS ISD
LEARNING. A LIFE-LONG COMMITMENT.



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**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**

Independent Auditor's Report

Board of Trustees
Hughes Springs Independent School District
871 Taylor St.
Hughes Springs, Texas 75656

Members of the Board:

We have audited the financial statements of the governmental activities and the aggregate fund information of Hughes Springs Independent School District (the District) as of and for the year ended August 31, 2012. These collectively comprise the District's basic financial statements. We have issued our report on them dated November 1, 2012.

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.

Internal Control Over Financial Reporting

Management of Hughes Springs Independent School District is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit, we considered Hughes Springs Independent School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of Hughes Springs Independent School District's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of Hughes Springs Independent School District's internal control over financial reporting.

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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we considered to be material weaknesses as defined above.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hughes Springs 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* which are considered to be material weaknesses.

This report is intended for the information of the district's trustees, the audit committee, the administration, Texas Education Agency, federal awarding agencies and pass-through entities, and is not intended to be used and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Moore and Caver, Inc." in a cursive script.

MOORE and CAVER, Inc.
Certified Public Accountants

November 1, 2012

Judy C. Moore, CPA
N. Preston Caver, CPA

MOORE and CAVER, Inc.
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**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A
DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

Independent Auditor's Report

Board of Trustees
Hughes Springs Independent School District
871 Taylor St.
Hughes Springs, Texas 75656

Members of the Board:

Compliance

We have audited the compliance of Hughes Springs Independent School District with the types of compliance requirements described in the *U. S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended August 31, 2012. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Hughes Springs Independent School District's administrators. Our responsibility is to express an opinion on the District's compliance based on our audit.

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 Hughes Springs 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. Our audit does not provide a legal determination on Hughes Springs Independent School District's compliance with those requirements.

In our opinion, Hughes Springs Independent School District complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each major program for the year ended August 31, 2012.

Internal Control Over Compliance

The administration of Hughes Springs Independent School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion of the effectiveness of internal control over compliance. Accordingly we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions to prevent or detect 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 reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above.

This report is intended for the information and use of the District's trustees, the audit committee, the administration, Texas Education Agency, federal awarding agencies and pass-through entities and is not intended to be used and should not be used by anyone other than these specified parties.



MOORE and CAVER, Inc.
Certified Public Accountants

November 1, 2012

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2012

I. Summary of Auditor's Results:

1. Type of auditor's report issued on the financial statements: Unqualified.
2. No internal control findings required to be reported in this schedule were disclosed in the audit of the financial statements.
3. Noncompliance which is material to the financial statements: None
4. No internal control findings required to be reported in this schedule were disclosed in the audit of the major programs.
5. Type of auditor's report on compliance for major programs: Unqualified
6. Did the audit disclose findings which are required to be reported under Sec. 510(a): No
7. Major programs include:
CFDA #Program
84.410 Education Jobs Grant
84.010A ESEA, Title I, Part A – Improving Basic Programs
8. Dollar threshold used to distinguish between Type A and Type B Programs: \$300,000.
9. Low risk auditee: Yes

II. Findings Related to the Financial Statements :

There were no findings or questioned cost in the current year

III. Findings and Questioned Costs Related to the Federal Awards AA-1:

None.

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2012

PRIOR YEAR'S FINDING/NONCOMPLIANCE

2011-01 Expenditures in Excess of Appropriations

Criteria: Budgetary data should reflect materially correct information related to actual events for the current year.

Condition Found: Hughes Springs Independent School District had expenditures in excess of appropriation for the function 35 in the Child Nutrition Fund between expenditures and final budget.

Effect: None.

Cause: Administration's failed to amend the budget as required.

2011-02 Internal Control Over Cash

Criteria: Internal Controls should be designed and implemented in order to safe guard assets. Cash internal controls were not adequate to prevent misappropriation.

Condition Found: (1) There was no segregation of duty relating to receipt of cash, deposit of cash and reconciliation of bank accounts.

(2) Internal control review of cash records, including reconciliation, was not adequate.

Effect: Received cash was not deposited to the bank in full and/or on a timely basis.

Cause: Administration failed to adequately segregated duties and review records to prevent the occurrence of fraud.

Actions: Administration has separated duties over cash receipts, deposits to the bank, and reconciliation of the monthly bank accounts. The bank reconciliations are reviewed by the business manager.

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2012

CORRECTIVE ACTION:

None required

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2012

EXHIBIT K-1

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	(2) Federal CFDA Number	(3) Pass-Through Entity Identifying Number	(4) Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	12610101034903	\$ 141,744
*IDEA - Part B, Formula	84.027	1266001201034903	44,488
*IDEA - Part B, Preschool	84.173	1266101201034903	693
Total Special Education Cluster (IDEA)			45,181
ESEA, Title II, Part A, Teacher/Principal Training Education Jobs Fund- ARRA	84.367A	12694501034903	39,312
Total Passed Through State Department of Education	84.410	11550101034903	\$ 187,251
TOTAL DEPARTMENT OF EDUCATION			\$ 413,488
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401201	\$ 90,586
*National School Lunch Program - Cash Assistance	10.555	71301201	279,505
*National School Lunch Prog. - Non-Cash Assistance	10.555	034006A	36,826
Total CFDA Number 10.555			316,331
Total Child Nutrition Cluster			406,917
Total Passed Through the State Department of Agriculture			\$ 406,917
TOTAL DEPARTMENT OF AGRICULTURE			\$ 406,917
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 820,405

*Clustered Programs

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPEDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2012

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

The modified accrual basis of accounting is used for the Governmental Fund types, the Expendable Trust Funds, and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.
3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement - Provisional 6/97.