

LIBERTY HILL INDEPENDENT
SCHOOL DISTRICT

ANNUAL FINANCIAL AND
COMPLIANCE REPORT

FOR THE YEAR ENDED
AUGUST 31, 2014



SINGLETON, CLARK
& COMPANY, PC CERTIFIED PUBLIC ACCOUNTANTS

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL AND COMPLIANCE REPORT
FOR THE YEAR ENDED AUGUST 31, 2014

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CERTIFICATE OF BOARD

Liberty Hill Independent School District
Name of School District

Williamson
County

246-908
Co.-Dist. Number

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



Signature of Board Secretary



Signature of Board President

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



UNMODIFIED OPINIONS ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY
REQUIRED SUPPLEMENTARY INFORMATION AND OTHER INFORMATION INCLUDING THE
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Independent Auditors' Report

To the Board of Trustees of
Liberty Hill Independent School District

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis section be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

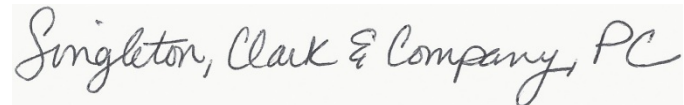
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Liberty Hill Independent School District's basic financial statements. The combining schedules, the Texas Education Agency required schedules, and the schedule of expenditures of federal awards are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2014 on our consideration of Liberty Hill Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Liberty Hill Independent School District's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Singleton, Clark & Company, P.C." The signature is written in black ink on a light-colored background.

Singleton, Clark & Company, P.C.
Cedar Park, Texas

November 25, 2014

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Liberty Hill Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2014. Please read it in conjunction with the independent auditors' report on page 2 and the District's Basic Financial Statements which follow this section.

FINANCIAL HIGHLIGHTS

- The District's net position for governmental activities declined by \$3,400,855 as a result of this year's operations, to end at (\$1,478,479).
- The General Fund of the District reported a fund balance decrease of \$751,549 for the year, to end at \$3,343,056.
- Total Governmental Funds of the District (the General Fund plus all Special Revenue Funds, Capital Projects Funds, and the Debt Service Fund) reported an overall fund balance decrease of \$6,490,269, to end at \$5,380,502.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. 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.

The fund financial statements 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.

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

The Combining Schedules as Supplementary Information section contains even more information about the District's individual nonmajor funds. This information is not required by TEA, but is included for its usefulness. The Other Supplementary Information Section includes TEA Required Schedules and information required by federal monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2014

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins with the government-wide financial statements which immediately follow this section. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. The primary purpose of these financial statements is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the district and grants provided by the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by the State of Texas 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.

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

In the Statement of Net Position and the Statement of Activities, school districts are divided into two kinds of activities:

- Governmental activities – School districts report basic services here, including the instruction of students, 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.
- Business-type activities – School districts may charge a fee to "customers" to help it cover all or most of the cost of services it provides for child care programs or other activities that closely model a business venture.

Our school district reported governmental activities this year, however, we did not engage in business-type activities.

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2014

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements follow the government-wide statements and provide detailed information about the most significant funds of the District, not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education in order to display separate accountability. The District's administration establishes many other funds to help it control and manage money for particular purposes (such as for campus activities). School districts use two different kinds of funds for operations, governmental and proprietary, which use different accounting approaches.

- A school district will use *governmental funds* to account for basic services. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.
- A school district will use *proprietary funds* to account for the activities for which it charges users (whether outside customers or other units of the District). Proprietary funds use the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, when a district utilizes enterprise funds, (one category of proprietary funds) these are the business-type activities reported in the government-wide statements but they contain more detail and additional information, such as cash flows. Internal service funds (the other category of proprietary funds) report activities that provide supplies and services for a District's other programs and activities, such as a District's self-insurance programs.

Our school district reported several governmental funds this year, however, we did not utilize proprietary funds.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities and alumnae scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position on pages that follow the governmental fund and proprietary fund financial statements. 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.

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2014

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net position of the District's governmental activities decreased from \$1,922,376 (as restated) to (\$1,478,479). Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$3,336,979 at August 31, 2014. The decrease in governmental net position was primarily due to current year accretion on long-term debt that increases future debt service requirements as well as a restatement of net position to remove bond issuance costs and interest payable balances from the statement of net position.

Table I
LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
NET POSITION

	Governmental Activities 2014	Governmental Activities 2013	Change
Current & other assets	\$ 7,037,547	\$ 15,560,662	\$ (8,523,115)
Capital assets	117,880,192	114,631,286	3,248,906
Deferred outflows	160,144	-	160,144
Total assets and deferred inflows	<u>125,077,883</u>	<u>130,191,948</u>	<u>(5,114,065)</u>
Current liabilities	1,828,427	4,511,636	(2,683,209)
Long-term liabilities	124,727,935	123,757,936	969,999
Total liabilities	<u>126,556,362</u>	<u>128,269,572</u>	<u>(1,713,210)</u>
Net Position:			
Net investment in capital assets	(4,921,639)	(8,681,649)	3,760,010
Restricted	106,181	369,356	(263,175)
Unrestricted	3,336,980	10,234,669	(6,897,689)
Total net position	<u>\$ (1,478,478)</u>	<u>\$ 1,922,376</u>	<u>\$ (3,400,854)</u>

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2014

Table II
LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
CHANGES IN NET POSITION

	Governmental Activities 2014	Governmental Activities 2013	Change
Revenues:			
Program Revenues:			
Charges for services	\$ 935,732	\$ 1,312,100	\$ (376,368)
Operating grants & contributions	3,208,624	2,559,794	648,830
General Revenues:			
Maintenance & operations taxes	11,627,409	10,742,845	884,564
Debt service taxes	5,545,012	4,233,030	1,311,982
State aid - formula grants	9,110,121	7,668,746	1,441,375
Investment earnings	57,310	347,443	(290,133)
Miscellaneous	410,152	168,517	241,635
Total Revenue	<u>30,894,360</u>	<u>27,032,475</u>	<u>3,861,885</u>
Expenses:			
Instruction	15,406,229	13,447,396	1,958,833
Instructional resources & media services	502,313	493,161	9,152
Curriculum and staff development	643,412	595,352	48,060
Instructional leadership	271,951	325,718	(53,767)
School leadership	1,414,098	1,389,164	24,934
Guidance/counseling services	975,886	704,658	271,228
Social work	1,467	-	1,467
Health services	307,717	281,329	26,388
Student transportation	1,045,440	948,049	97,391
Food services	1,516,130	1,465,987	50,143
Cocurricular/extracurricular activities	1,618,885	1,325,986	292,899
General administration	992,007	798,637	193,370
Plant maintenance and operations	2,977,215	2,370,363	606,852
Security and monitoring services	5,333	4,101	1,232
Data processing services	619,129	486,528	132,601
Community services	32,920	23,221	9,699
Debt service	5,785,233	2,247,035	3,538,198
Payments to JJAEP program	38,936	61,367	(22,431)
Other intergovernmental charges	140,913	114,934	25,979
Total Expenses	<u>34,295,214</u>	<u>27,082,986</u>	<u>7,212,228</u>
Change in net position	(3,400,854)	(50,511)	(3,350,343)
Net position at 9/1/13 and 9/1/12	3,166,317	3,216,828	(50,511)
Restatement of Net Position (Note Q)	(1,243,941)	-	(1,243,941)
Net position at 8/31/14 and 8/31/13	<u>\$ (1,478,478)</u>	<u>\$ 3,166,317</u>	<u>\$ (4,644,795)</u>

**LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2014**

THE DISTRICT'S FUNDS

As the District completed this annual period, the General Fund reported a fund balance of \$3,343,056 which is \$751,549 less than last year's total of \$4,094,605. The decrease in fund balance is mainly attributable to deficit spending in the current year.

The District's Capital Projects Funds reported a fund balance of \$1,926,104 which is \$5,746,069 less than last year's total of \$7,672,173. The Capital Projects Fund fund balance was less at August 31, 2014, as compared to the prior year end, due to the further completion of ongoing capital projects during the year.

The District's Debt Service fund reported a fund balance of \$11,029 which is \$22,407 less than last year's total of \$33,436. The Debt Service fund balance was less at August 31, 2014, as compared to the prior year end, due to debt service requirements that slightly exceeded debt service property tax collections in the current year. The purpose of the Debt Service Fund is to provide for the payment of bond principal and interest payments as they become due.

The District's other governmental funds reported a fund balance of \$100,313 as compared to \$70,557 in 2013, which reflects an increase of \$29,756. The primary difference between fiscal year 2013 and fiscal year 2014 governmental funds was that the campus activity fund realized more revenues than expenditures in the current year.

Over the course of the year, the Board of Trustees revised the District's budget several times. These amendments involved moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs. None of the amendments were considered significant.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

As of August 31, 2014, the District had \$117,880,192 (net of accumulated depreciation) invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. A summary of the ending balances of capital assets by major category for both 2014 and 2013 is as follows:

	Governmental Activities 2014	Governmental Activities 2013	Change
Land	\$ 1,875,322	\$ 1,875,322	\$ -
Buildings	126,614,843	121,217,063	5,397,780
Furniture and Equipment	7,463,345	6,592,767	870,578
Construction in Progress	273,157	18,493	254,664
Total	<u>136,226,667</u>	<u>129,703,645</u>	<u>6,523,022</u>
Less Accumulated Depreciation	<u>(18,346,475)</u>	<u>(15,072,359)</u>	<u>(3,274,116)</u>
Capital assets, net of depreciation	<u>\$ 117,880,192</u>	<u>\$ 114,631,286</u>	<u>\$ 3,248,906</u>

**LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED AUGUST 31, 2014**

Debt

At year-end, the District had \$124,567,791 in bonds and other long-term debt outstanding versus \$124,322,255 last year. The increase is attributable to current year accretion and a new capital lease incurred in the current year that were greater than scheduled payments on debt during fiscal 2014. A summary of the ending balances of long-term debt by type for both 2014 and 2013 is as follows:

	Governmental Activities 2014	Governmental Activities 2013	Change
General Obligation Bonds	\$ 122,270,103	\$ 122,114,175	\$ 155,928
Notes Payable	1,064,988	1,221,935	(156,947)
Capital Leases Payable	1,392,844	1,161,580	231,264
Total	<u>\$ 124,727,935</u>	<u>\$ 124,497,690</u>	<u>\$ 230,245</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal year 2014-2015 budget and tax rates. Those factors include property values, changes in enrollment, the economy, projections of future budget years, and legislative mandates. A rapidly increasing enrollment population, coupled with a moderate increase in property values, has led to a General Fund budget of \$24.3 million for the 2014-2015 fiscal year. The budget increased from 2013-2014 to 2014-2015 by approximately \$1.5 million, a direct result from increased average daily attendance, which generates more state revenues but also results in higher expenditure levels.

For the 2014-2015 budget year, the District has held constant its maintenance and operations tax rate at \$1.04 per hundred of taxable value. The District has the capability to call a tax ratification election which could authorize up to \$1.17 cents for maintenance and operations. The District has no current plans to call a tax ratification election. The District adopted a debt service tax rate of \$.50 for the 2014-2015 budget year in order to fund required debt payments in the coming year. The combined tax rate of the District for the 2014-2015 budget year is \$1.54 per hundred of taxable value.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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 Liberty Hill Independent School District, 14001 W. Highway 29 Liberty Hill, Texas 78642, or by calling 512-260-5580.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2014

Data Control Codes	<u>Primary Government 1 Governmental Activities</u>
ASSETS	
1110 Cash and Cash Equivalents	\$ 6,154,984
1120 Current Investments	200
1225 Property Taxes Receivable (net)	315,879
1240 Due from Other Governments	506,412
1290 Other Receivables, net	49,645
1410 Deferred Expenditures or Expenses	10,427
Capital Assets:	
1510 Land	1,875,322
1520 Buildings and Improvements, Net	113,175,764
1530 Furniture and Equipment, Net	2,555,949
1580 Construction in Progress	273,157
1000 Total Assets	<u>124,917,739</u>
DEFERRED OUTFLOWS OF RESOURCES	
1700 Deferred Outflow - Refunding Costs	160,144
Total Deferred Outflows of Resources	<u>160,144</u>
LIABILITIES	
2110 Accounts Payable	301,698
2140 Interest Payable	487,261
2150 Payroll Deductions & Withholdings	118,843
2160 Accrued Wages Payable	767,708
2180 Due to Other Governments	5,019
2200 Accrued Expenses	147,898
Noncurrent Liabilities:	
2501 Bonds, Loans & Other Payable-Due Within One Year	1,924,485
2502 Bonds Payable - Due in More than One Year	115,359,167
2516 Unamortized Premium (Discount) on Bonds	5,600,936
2520 Loans Payable - Due in More than One Year	1,843,347
2000 Total Liabilities	<u>126,556,362</u>
NET POSITION	
3200 Investments in Capital Assets, Net of Debt	(4,921,639)
Restricted for:	
3850 Debt Service	106,181
3860 Capital Projects	-
3900 Unrestricted	3,336,980
3000 Total Net Position	<u>\$ (1,478,478)</u>

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

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

Data Control Codes	1 Expenses	Program Revenues		Net (Expense) Rev. & Changes in Net Position
		3 Charges for Services	4 Operating Grants and Contributions	6 Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 15,406,229	\$ 39,941	\$ 1,990,320	\$ (13,375,968)
12 Instructional Resources & Media Services	502,313	-	17,034	(485,279)
13 Curriculum & Staff Development	643,412	-	42,738	(600,674)
21 Instructional Leadership	271,951	-	52,329	(219,622)
23 School Leadership	1,414,098	-	70,505	(1,343,593)
31 Guidance/Counseling/Evaluation Services	975,886	-	349,142	(626,744)
32 Social Work Services	1,467	-	1,806	339
33 Health Services	307,717	-	15,760	(291,957)
34 Student Transportation	1,045,440	-	45,471	(999,969)
35 Food Services	1,516,130	722,623	-	(793,507)
36 Extracurricular Activities	1,618,885	132,134	476,946	(1,009,805)
41 General Administration	992,007	41,034	31,596	(919,377)
51 Plant Maintenance and Operations	2,977,215	-	89,308	(2,887,907)
52 Security and Monitoring Services	5,333	-	-	(5,333)
53 Data Processing Services	619,129	-	23,939	(595,190)
61 Community Services	32,920	-	1,730	(31,190)
72 Interest on Long-Term Debt	5,764,317	-	-	(5,764,317)
73 Bond Issuance Cost & Fees	20,916	-	-	(20,916)
95 Payments to Juvenile Justice Alt. Ed. Prog.	38,936	-	-	(38,936)
99 Other Intergovernmental Charges	140,913	-	-	(140,913)
TG Total Governmental Activities:	<u>\$ 34,295,214</u>	<u>\$ 935,732</u>	<u>\$ 3,208,624</u>	<u>(30,150,858)</u>
General Revenues:				
Taxes:				
MT Property Taxes, Levied for General Purposes				11,627,409
DT Property Taxes, Levied for Debt Service				5,545,012
SF State Aid - Formula Grants				9,110,121
IE Investment Earnings				57,310
MI Miscellaneous Local and Intermediate Revenue				410,152
TR Total General Revenues				<u>26,750,004</u>
CN Change in Net Position				(3,400,854)
NB Net Position -- Beginning (as Restated - Note Q)				1,922,376
NE Net Position -- Ending				<u>\$ (1,478,478)</u>

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

FUND BASIS FINANCIAL STATEMENTS

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2014

Data	10	50	60
Control Codes	General Fund	Debt Service Fund	Capital Projects Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 3,839,377	\$ 15,330	\$ 2,164,471
1120 Investments - Current	100	100	-
1220 Property Taxes - Delinquent	339,580	146,388	-
1230 Allowance for Uncollectible Taxes (Credit)	(118,853)	(51,236)	-
1240 Due from Other Governments	436,430	-	-
1260 Due from Other Funds	457,790	-	8,595
1290 Other Receivables	19,803	1,500	-
1410 Deferred Expenditures	10,427	-	-
1000 Total Assets	<u>\$ 4,984,654</u>	<u>\$ 112,082</u>	<u>\$ 2,173,066</u>
LIABILITIES			
2110 Accounts Payable	\$ 27,617	\$ -	\$ 239,357
2150 Payroll Deductions and Withholdings Payable	118,843	-	-
2160 Accrued Wages Payable	754,956	-	-
2170 Due to Other Funds	379,162	5,901	-
2180 Due to Other Governments	-	-	-
2200 Accrued Expenditures	140,293	-	7,605
2000 Total Liabilities	<u>1,420,871</u>	<u>5,901</u>	<u>246,962</u>
DEFERRED INFLOWS OF RESOURCES			
2600 Deferred Inflows	<u>220,727</u>	<u>95,152</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>220,727</u>	<u>95,152</u>	<u>-</u>
FUND BALANCES			
Nonspendable:			
3430 Prepaid Items	10,427	-	-
Restricted for:			
3470 Capital Acquisitions and Contractual Obligations	-	-	1,926,104
3480 Retirement of Long-Term Debt	-	11,029	-
Committed for:			
3545 Other Committed Fund Balance	-	-	-
Assigned for:			
3590 Other Assigned Fund Balance	5,526	-	-
3600 Unassigned Fund Balance	3,327,103	-	-
3000 Total Fund Balances	<u>3,343,056</u>	<u>11,029</u>	<u>1,926,104</u>
4000 Total Liabilities, Deferred Inflows, and Fund Balances	<u>\$ 4,984,654</u>	<u>\$ 112,082</u>	<u>\$ 2,173,066</u>

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

		98
		Total
Other	Governmental	
Funds	Funds	
\$ 135,806	\$ 6,154,984	
-	200	
-	485,968	
-	(170,089)	
69,982	506,412	
804	467,189	
28,342	49,645	
-	10,427	
<u>\$ 234,934</u>	<u>\$ 7,504,736</u>	
\$ 34,724	\$ 301,698	
-	118,843	
12,752	767,708	
82,126	467,189	
5,019	5,019	
-	147,898	
<u>134,621</u>	<u>1,808,355</u>	
-	315,879	
<u>-</u>	<u>315,879</u>	
-	10,427	
-	1,926,104	
-	11,029	
100,313	100,313	
-	5,526	
-	3,327,103	
<u>100,313</u>	<u>5,380,502</u>	
<u>\$ 234,934</u>	<u>\$ 7,504,736</u>	

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

	1
Total Fund Balances - Governmental Funds	\$ 5,380,502
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. The net effect of recording the beginning of the year value of \$129,703,645 for capital assets and \$15,072,359 for accumulated depreciation to the Statement of Net Position was an increase in net position.	114,631,286
2 Capital outlay transactions are expenditures in governmental funds but are capitalized as assets on the Statement of Net Position. The effect of capitalizing current expenditures for capital outlays during the year was an increase in net position.	6,523,022
3 Since capital assets are not reported in governmental funds, related depreciation expense is also not reported. The effect of recording depreciation expense to the Statement of Net Position is a decrease in net position.	(3,274,115)
4 Long-term debt issued by governmental activities is not a current financial liability and therefore not reported in governmental funds. The effect of recording the beginning of the year value for all long-term debt outstanding is a decrease in net position.	(124,322,255)
5 Long-term debt issued by governmental activities is treated as an inflow of financial resources and not reported as a liability. The effect of recording the long-term debt issued during the year as a liability on the Statement of Net Position is a decrease in net position.	(757,145)
6 Long-term debt payments are expenditures in the governmental funds but are treated as reductions of long-term debt on the Statement of Net Position. The effect of reducing long-term debt is an increase in net position.	882,828
7 Accretion on long-term debt issued by governmental activities is treated as interest expense and as an increase in long-term debt. The effect of recording accretion on long-term debt is a decrease in net position.	(1,139,139)
8 Since long-term debt is not recorded in governmental funds, issuance premiums/discounts and related subsequent amortization is also not recorded. The net effect of recording amortization on premiums/discounts on long-term debt is an increase in net position.	783,211
9 Accrued interest related to governmental fund activities is not due and payable in the current period and, therefore, not reported in the governmental funds. The effect of recording accrued interest is a decrease in net position.	(487,261)
10 Property taxes are recognized as revenue in the governmental funds when collected but recognized on the Statement of Activities in the year levied. The net effect of this difference in property tax revenue recognition is an increase in net position.	315,879
11 Other miscellaneous differences in accounting treatments between the governmental funds and the Statement of Net Position resulted in a decrease in net position.	(15,291)
19 Net Position of Governmental Activities	\$ (1,478,478)

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

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

Data	10	50	60
Control Codes	General Fund	Debt Service Fund	Capital Projects Funds
REVENUES:			
5700 Local and Intermediate Sources	\$ 11,902,218	\$ 5,509,179	\$ 18,245
5800 State Program Revenues	10,206,563	-	-
5900 Federal Program Revenues	366,539	-	-
5020 Total Revenues	<u>22,475,320</u>	<u>5,509,179</u>	<u>18,245</u>
EXPENDITURES:			
0011 Instruction	12,729,727	-	-
0012 Instructional Resources & Media Services	445,212	-	-
0013 Curriculum & Instructional Staff Development	556,331	-	-
0021 Instructional Leadership	210,743	-	-
0023 School Leadership	1,253,350	-	-
0031 Guidance, Counseling & Evaluation Services	636,802	-	-
0032 Social Work Services	-	-	-
0033 Health Services	272,737	-	-
0034 Student (Pupil) Transportation	1,185,667	-	-
0035 Food Services	-	-	-
0036 Cocurricular/Extracurricular Activities	1,116,742	-	-
0041 General Administration	879,240	-	-
0051 Plant Maintenance and Operations	2,610,565	-	20,349
0052 Security and Monitoring Services	4,727	-	-
0053 Data Processing Services	548,749	-	-
0061 Community Services	29,178	-	-
0071 Debt Service - Principal	682,828	200,000	-
0072 Debt Service - Interest	67,030	5,325,961	-
0073 Debt Service - Bond Issuance Costs	-	5,625	-
0081 Facilities Acquisition and Construction	486,762	-	5,743,965
0095 Payments to Juvenile Justice Alt. Ed. Prog.	34,510	-	-
0099 Other Intergovernmental Charges	124,895	-	-
6030 Total Expenditures	<u>23,875,795</u>	<u>5,531,586</u>	<u>5,764,314</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,400,475)</u>	<u>(22,407)</u>	<u>(5,746,069)</u>
OTHER FINANCING SOURCES (USES):			
7913 Capital Leases	473,445	-	-
7914 Non-Current Loan Proceeds	283,700	-	-
7915 Transfers In	-	-	-
8911 Transfers Out	(108,219)	-	-
7080 Total Other Financing Sources (Uses)	<u>648,926</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	<u>(751,549)</u>	<u>(22,407)</u>	<u>(5,746,069)</u>
0100 Fund Balance - Beginning (as restated)	4,094,605	33,436	7,672,173
3000 Fund Balance - Ending	<u>\$ 3,343,056</u>	<u>\$ 11,029</u>	<u>\$ 1,926,104</u>

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

98	
Total	
Other Funds	Governmental Funds
\$ 1,044,531	\$ 18,474,173
556,856	10,763,419
1,188,787	1,555,326
<u>2,790,174</u>	<u>30,792,918</u>
925,190	13,654,917
-	445,212
13,941	570,272
30,294	241,037
-	1,253,350
228,150	864,952
1,300	1,300
-	272,737
-	1,185,667
1,343,783	1,343,783
318,115	1,434,857
-	879,240
7,864	2,638,778
-	4,727
-	548,749
-	29,178
-	882,828
-	5,392,991
-	5,625
-	6,230,727
-	34,510
-	124,895
<u>2,868,637</u>	<u>38,040,332</u>
<u>(78,463)</u>	<u>(7,247,414)</u>
-	473,445
-	283,700
108,219	108,219
-	(108,219)
<u>108,219</u>	<u>757,145</u>
29,756	(6,490,269)
70,557	11,870,771
<u>\$ 100,313</u>	<u>\$ 5,380,502</u>

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

Total Net Change in Fund Balances – Governmental Funds	\$ (6,490,269)
1 Capital outlay transactions are expenditures in governmental funds but are capitalized as assets on the Statement of Net Position. The net effect of capitalizing current expenditures for capital outlays during the year was an increase in the change in net position.	6,523,022
2 Since capital assets are not reported in governmental funds, related depreciation expense is also not reported. The net effect of recording depreciation expense to the Statement of Net Position is a decrease in the change in net position.	(3,274,115)
3 Long-term debt issued by governmental activities is treated as an inflow of financial resources for the governmental funds but an increase in liabilities on the Statement of Net Position. The net effect of this difference is a decrease in the change in net position.	(757,145)
4 Long-term debt payments are expenditures in the governmental funds but are treated as reductions of long-term debt on the Statement of Net Position. The net effect of reducing long-term debt is an increase in the change in net position.	882,828
5 Accretion on long-term debt issued by governmental activities is treated as interest expense and as an increase in long-term debt. The net effect of recording accretion on long-term debt is a decrease in the change in net position.	(1,139,139)
6 Since long-term debt is not recorded in governmental funds, issuance premiums/discounts and related subsequent amortization is also not recorded. The net effect of recording amortization on premiums/discounts on long-term debt is an increase in the change in net position.	783,211
7 Accrued interest related to governmental fund activities is not due and payable in the current period and, therefore, not reported in the governmental funds. The effect of recording accrued interest is a decrease in the change in net position.	(15,398)
8 Property taxes are recognized as revenue in the governmental funds when collected but recognized on the Statement of Activities in the year levied. The net effect of this difference in property tax revenue recognition is an increase in the change in net position.	101,442
9 Other miscellaneous differences in accounting treatments between the governmental funds and the Statement of Activities resulted in a decrease in the change in net position.	(15,291)
19 Change in Net Position of Governmental Activities	<u><u>\$ (3,400,854)</u></u>

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

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

Data Control Codes	Budgeted Amounts		Actual	Variance With Final Budget
	Original	Final	Amounts (GAAP BASIS)	
REVENUES:				
5700 Local & Intermediate Sources	\$ 12,223,768	\$ 12,282,352	\$ 11,902,218	\$ (380,134)
5800 State Program Revenues	9,818,657	9,824,341	10,206,563	382,222
5900 Federal Program Revenues	300,000	300,000	366,539	66,539
5020 Total Revenues	22,342,425	22,406,693	22,475,320	68,627
EXPENDITURES:				
Current:				
0011 Instruction	12,693,801	12,732,554	12,729,727	2,827
0012 Instructional Resources & Media Services	433,115	448,909	445,212	3,697
0013 Curriculum and Staff Development	570,325	572,928	556,331	16,597
0021 Instructional Leadership	225,842	213,992	210,743	3,249
0023 School Leadership	1,243,873	1,253,873	1,253,350	523
0031 Guidance/Counseling/Evaluation Services	617,902	637,902	636,802	1,100
0033 Health Services	264,590	274,590	272,737	1,853
0034 Student Transportation	849,918	1,185,878	1,185,667	211
0036 Extracurricular Activities	1,013,249	1,116,877	1,116,742	135
0041 General Administration	799,055	879,926	879,240	686
0051 Facilities Maintenance & Operations	2,607,719	2,612,019	2,610,565	1,454
0052 Security and Monitoring Services	6,700	16,700	4,727	11,973
0053 Data Processing Services	513,223	558,223	548,749	9,474
0061 Community Services	21,028	36,028	29,178	6,850
Debt Service:				
0071 Principal on Long Term Debt	721,617	706,617	682,828	23,789
0072 Interest on Long Term Debt	52,085	67,085	67,030	55
Capital Outlay:				
0081 Facilities Acquisition & Construction	-	486,763	486,762	1
Intergovernmental:				
0095 Payments to Juvenile Justice Alt. Ed. Prog.	34,510	34,510	34,510	-
0099 Other Intergovernmental Charges	120,000	124,895	124,895	-
6030 Total Expenditures	22,788,552	23,960,269	23,875,795	84,474
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(446,127)	(1,553,576)	(1,400,475)	153,101
OTHER FINANCING SOURCES (USES):				
7913 Capital Leases	-	473,445	473,445	-
7914 Non-Current Loan Proceeds	-	283,700	283,700	-
8911 Transfers Out	-	(132,000)	(108,219)	23,781
7080 Total Other Financing Sources (Uses)	-	625,145	648,926	23,781
1200 Net Change in Fund Balances	(446,127)	(928,431)	(751,549)	176,882
0100 Fund Balance-September 1 (Beginning)	4,094,605	4,094,605	4,094,605	-
3000 Fund Balance-August 31 (Ending)	\$ 3,648,478	\$ 3,166,174	\$ 3,343,056	\$ 176,882

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

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

Data Control Codes	Agency Funds
ASSETS	
1110 Cash and Cash Equivalents	\$ 43,989
1000 Total Assets	43,989
LIABILITIES	
2190 Due to Student Groups	43,989
2000 Total Liabilities	\$ 43,989

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

NOTES TO THE FINANCIAL STATEMENTS

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Liberty Hill Independent School District 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. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

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

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

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

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 and enterprise funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

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

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do the proprietary fund and 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.

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

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

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the "susceptible to accrual" concept, that is, when they are both measurable and available. The District considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

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.

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. This fund met the criteria to be considered a major fund.

Capital Projects Funds - The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in capital projects funds. These funds are presented aggregately and meet the criteria to be considered a major fund.

Additionally, the District reports the following fund types:

Governmental Funds:

Special Revenue Funds - The District accounts for resources restricted, committed, or assigned for specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Fiduciary Funds:

Agency Funds - The District accounts for resources held for others in a custodial capacity in agency funds. Student activity funds are accounted for using an agency fund.

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

E. OTHER ACCOUNTING POLICIES

1. Cash Equivalents

For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

2. Inventories

The District does not report inventories of supplies for consumable maintenance, instructional, office, athletic, or transportation items due to the unused amount of these items being on hand at any given time being deemed immaterial.

3. Long-Term Debt

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, unless the straight-line method is not materially different, in which case the straight-line method is used. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expense in the year of issuance of the debt.

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

4. Vacation and Sick Leave

It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the district. Vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements if determined to be material at year end. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2014

5. Capital Assets

Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental or business-type activities columns 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 one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	20-50
Building Improvements	10-20
Vehicles	5-10
Office Equipment	5
Computer Equipment	5

6. Fund Balances – Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance represents amounts that can only be used for a specific purpose because of a formal action by the District's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

Assigned Fund Balance represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the General Fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

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

7. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2014, the District purchased commercial insurance to cover general liabilities. Employees of the District were covered during the year by a workers' compensation insurance plan, which is described within Section III of the Notes to the Financial Statements. 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.

8. Data Control Codes

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

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2014

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Child Nutrition Fund and the Debt Service Fund. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund budget report appears as Exhibit C-3 and the other two reports are Exhibits J-4 and J-5, respectively.

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

1. Prior to the end of each fiscal year, the District prepares a budget for the next succeeding fiscal year. 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 the first day of the fiscal year, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments 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. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

Fund Balance - Special Revenue Funds	
Non-Appropriated Budget Funds - Campus Activity Funds	\$ 100,313
All Special Revenue Funds	\$ 100,313

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

District reported expenditures in excess of appropriations in Function 35 of the Child Nutrition Fund in the amount of \$27,868.

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

C. DEFICIT FUND EQUITY

The District had no funds with deficit fund equity at year end.

III. DETAILED NOTES ON ALL FUNDS

A. DEPOSITS AND INVESTMENTS

District Policies and Legal and Contractual Provisions Governing Deposits

The funds of the District must be deposited and invested under terms of a contract, contents of which are set out in 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, 2014, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts) was \$6,198,973 and the bank balance was \$6,482,050. 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 following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: Prosperity Bank of Liberty Hill, Texas.
- b. The fair market value of collateral pledged to the District, as of the date of the highest combined balance on deposit was \$28,319,953.
- c. The largest combined balances of cash, savings, and time deposit accounts amounted to \$15,282,699. These balances occurred during the month of January 2014.
- d. The total amount of FDIC coverage at the time of the largest combined balance was \$250,000.
- e. The amount of unsecured deposits was \$-0-.

Custodial Credit Risk for 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. 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 for Deposits

The District does not invest in securities relating to foreign currencies and therefore has no foreign currency risk.

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2014

District Policies and Legal and Contractual Provisions Governing Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

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

As of August 31, 2014, Liberty Hill Independent School District had the following investments.

Investment Name	Investment Type	Maturity in Years				Recording Fund
		Less than 1	1-5	6-10	More Than 10	
Lone Star Investment Pool	Investment Pools	\$ 200	\$ -	\$ -	\$ -	199, 599
	Total Investments	<u>\$ 200</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

Additional policies and contractual provisions governing investments for Liberty Hill Independent School District are specified below:

Credit Risk

To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations, the District limits investments in the U.S. Government or the State of Texas or its agencies and instrumentalities, commercial paper, corporate bonds, and mutual bond funds to only ones with quality ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2014, the district's investments in Lone Star Investment Pool were rated AAA by Standard & Poor's.

Custodial Credit Risk for Investments

To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the district and hand them over to the District or its designated agent. This includes securities in securities lending transactions. All of the securities are in the District's name and held by the District or its agent.

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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Concentration of Credit Risk

To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. However, investments in local government investment pools are excluded from this 5% requirement due to the low-risk nature of the underlying investments within government investment pools.

Interest Rate Risk

To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires that at least half of the investment portfolio to have maturities of less than one year on a weighted average maturity basis.

Foreign Currency Risk for Investments

The District does not invest in securities relating to foreign currencies and therefore has no foreign currency risk relating to investments.

B. PROPERTY TAXES

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

C. DELINQUENT TAXES RECEIVABLE

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

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2014

D. INTERFUND BALANCES AND TRANSFERS

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

	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General Fund:		
General Fund	\$ 369,763	\$ 369,763
Special Revenue Funds	82,126	804
Debt Service Fund	5,901	-
Capital Projects Funds	-	8,595
Total General Fund	<u>457,790</u>	<u>379,162</u>
Special Revenue Funds:		
General Fund	804	82,126
Total Special Revenue Funds	<u>804</u>	<u>82,126</u>
Debt Service Fund:		
General Fund	-	5,901
Total Debt Service Fund	<u>-</u>	<u>5,901</u>
Capital Projects Funds:		
General Fund	8,595	-
Total Capital Projects Funds	<u>8,595</u>	<u>-</u>
Grand Total	<u><u>\$ 467,189</u></u>	<u><u>\$ 467,189</u></u>

Interfund transfers for the year ended August 31, 2014, consisted of the following individual amounts:

The General Fund transferred \$108,219 to the Child Nutrition Fund to provide for supplemental financing needs.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2014, were as follows:

	<u>Property Taxes (net)</u>	<u>Other Governments</u>	<u>Other Receivables</u>	<u>Total Receivables</u>
Governmental Activities:				
General Fund	\$ 220,727	\$ 436,430	\$ 19,803	\$ 676,960
Debt Service Fund	95,152	-	1,500	96,652
Other Governmental Funds	-	69,982	28,342	98,324
Total - Governmental Activities	<u><u>\$ 315,879</u></u>	<u><u>\$ 506,412</u></u>	<u><u>\$ 49,645</u></u>	<u><u>\$ 871,936</u></u>

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

Payables at August 31, 2014, were as follows:

	Accounts Payable	Salaries/ Benefits	Due to Other Govs.	Accrued Expenditures	Total Payables
Governmental Activities:					
General Fund	\$ 27,617	\$ 873,799	\$ -	\$ 140,293	\$ 1,041,709
Capital Projects Funds	239,357	-	-	7,605	246,962
Other Governmental Funds	34,724	12,752	5,019	-	52,495
Total - Governmental Activities	\$ 301,698	\$ 886,551	\$ 5,019	\$ 147,898	\$ 1,341,166

F. CAPITAL ASSET ACTIVITY

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

	Beginning Balance 9/1/13			Ending Balance 8/31/14
		Additions	Retirements	
Governmental Activities:				
Land	\$ 1,875,322	\$ -	\$ -	\$ 1,875,322
Buildings and Improvements	121,217,063	5,397,780	-	126,614,843
Furniture and Equipment	6,592,767	870,578	-	7,463,345
Construction in Progress	18,493	254,664	-	273,157
Totals at Historical Cost	129,703,645	6,523,022	-	136,226,667
Less Accumulated Depreciation for:				
Buildings and Improvements	(10,833,577)	(2,605,502)	-	(13,439,079)
Furniture and Equipment	(4,238,782)	(668,614)	-	(4,907,396)
Total Accumulated Depreciation	(15,072,359)	(3,274,116)	-	(18,346,475)
Governmental Activities Capital Assets, Net	\$ 114,631,286	\$ 3,248,906	\$ -	\$ 117,880,192

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

Depreciation expense was charged to governmental functions as follows:

	Function	Depreciation Allocation
11	Instruction	\$ 1,751,312
12	Instructional Resources & Media	57,101
13	Curriculum & Staff Development	73,140
21	Instructional Leadership	30,914
23	School Leadership	160,748
31	Guidance/Counseling/Evaluation Services	110,934
32	Social Work Services	167
33	Health Services	34,980
34	Student Transportation	152,068
35	Food Services	172,347
36	Cocurricular/Extracurricular Activities	184,028
41	General Administration	112,767
51	Plant Maintenance and Operations	338,437
52	Security and Monitoring Services	606
53	Data Processing Services	70,380
61	Community Services	3,742
95	Payments to Juvenile Justice Alternative Ed. Prog.	4,426
99	Other Intergovernmental Charges	16,018
	Totals	\$ 3,274,115

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

G. BONDS, NOTES, AND CAPITAL LEASES PAYABLE

Bonded indebtedness of the District is reflected in the government-wide financial statements. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. A summary of changes in general long-term debt for the year ended August 31, 2014 is as follows:

Description	Interest Rate	Original Issue	Current Interest	Outstanding 9/1/13	Additions	Deletions	Current Accretion	Outstanding 8/31/14	Due in One Year
Bonds Payable - Principal									
Unlimited Tax Refunding Bonds, Series 2006	3.5-5.25%	\$20,000,000	\$ 795,863	\$ 15,420,000	\$ -	\$ (200,000)	\$ -	\$ 15,220,000	\$ 205,000
Unlimited Tax Refunding Bonds, Series 2011	2.35-5.0%	85,705,000	4,285,250	85,705,000	-	-	-	85,705,000	-
Capital Appr. Bonds (CAB) Par, Series 2011	2.35-4.39%	1,859,926	-	1,859,926	-	-	-	1,859,926	289,390
Accumulated Accretion, Series 2011, CABs			-	3,150,102	-	-	1,139,139	4,289,241	680,610
Unlimited Tax Refunding Bonds, Series 2013	2.51-6.0%	9,595,000	244,848	9,595,000	-	-	-	9,595,000	135,000
Total Bonds Payable			5,325,961	115,730,028	-	(200,000)	1,139,139	116,669,167	1,310,000
Bonds Payable Premium and Discounts									
Premium on Series 2006 CIBs		669,619		403,519	-	(18,341)	-	385,178	-
Discount on Series 2011 CIBs		(335,557)		(301,529)	-	11,343	-	(290,186)	-
Premium on Series 2011 CABs		8,272,679		6,016,493	-	(752,062)	-	5,264,431	-
Premium on Series 2013 CIBs		267,509		265,664	-	(24,151)	-	241,513	-
Total Bond Premium and Discounts				6,384,147	-	(783,211)	-	5,600,936	-
Total Bonds Payable				122,114,175	-	(983,211)	1,139,139	122,270,103	1,310,000
Notes Payable									
Maintenance Tax Notes, Series 2001	5.50%	995,000	14,850	270,000	-	(85,000)	-	185,000	90,000
Maintenance Tax Notes, Series 2010	1.75%	1,163,064	16,756	951,935	-	(71,947)	-	879,988	73,213
Total Notes Payable			31,606	1,221,935	-	(156,947)	-	1,064,988	163,213
Capital Leases Payable									
Notes Payable, Buses - 2011	3.69%	179,572	5,875	156,663	-	(23,768)	-	132,895	24,659
Notes Payable, Buses - 2012	3.69%	179,572	7,646	179,572	-	(22,142)	-	157,430	23,884
Notes Payable, Buses - 2013	2.97%	185,500	6,956	185,500	-	(23,665)	-	161,835	24,552
Notes Payable, Buses - 2013	2.97%	187,256	-	187,256	-	-	-	187,256	24,238
Notes Payable, Buses - 2014	2.97%	283,700	-	-	283,700	-	-	283,700	41,882
Dell Lease Purchase - 2012	3.18-3.43%	396,351	3,492	137,838	-	(137,838)	-	-	-
Dell Lease Purchase - 2013	3.18-3.43%	481,938	16,751	314,751	-	(152,343)	-	162,408	162,408
Dell Lease Purchase - 2014	3.18-3.43%	473,445	-	-	473,445	(166,125)	-	307,320	149,649
Total Capital Leases Payable			40,720	1,161,580	757,145	(525,881)	-	1,392,844	451,272
Grand Total Long-Term Debt			\$ 5,398,287	\$ 124,497,690	\$ 757,145	\$ (1,666,039)	\$ 1,139,139	\$ 124,727,935	\$ 1,924,485

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

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2014

H. DEBT SERVICE REQUIREMENTS – BONDS, NOTES, AND CAPITAL LEASES PAYABLE

Debt service requirements for bonds are as follows:

Year Ended August 31,	General Obligations			Total Requirements
	Principal	Accumulated Accretion	Interest	
2015	\$ 629,390	\$ 680,610	\$ 5,992,638	\$ 7,302,638
2016	1,191,880	828,683	6,813,513	8,834,076
2017	1,514,501	946,166	6,958,880	9,419,547
2018	1,467,208	767,365	7,025,002	9,259,575
2019	1,430,001	572,123	7,081,901	9,084,025
2020-2024	13,631,946	494,294	29,139,066	43,265,306
2025-2029	21,470,000	-	21,074,997	42,544,997
2030-2034	27,540,000	-	15,059,838	42,599,838
2035-2039	35,340,000	-	7,402,350	42,742,350
2040-2044	8,165,000	-	408,250	8,573,250
Totals	\$ 112,379,926	\$ 4,289,241	\$ 106,956,435	\$ 223,625,602

Debt service requirements for notes payable and capital leases are as follows:

Year Ended August 31,	Principal	Interest	Total Requirements
2015	\$ 614,485	\$ 75,299	\$ 689,784
2016	465,030	55,709	520,739
2017	218,598	35,792	254,390
2018	225,038	29,351	254,389
2019	231,685	22,705	254,390
2020-2024	615,928	39,260	655,188
2025-2029	87,068	1,534	88,602
	\$ 2,457,832	\$ 259,650	\$ 2,717,482

I. DEFINED BENEFIT PENSION PLAN

Plan Description

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

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2014

Funding Policy

State law provides for fiscal years 2012, 2013 and 2014 a state contribution rate of 6.0%, 6.4%, and 6.8%, respectively, and a member contribution rate of 6.4%. In certain instances the reporting district is required to make all or a portion of the state's contribution percentage. 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 the 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.

A summary of contributions made to the plan for the last three fiscal years is as follows:

Fiscal Year	Employee Contributions	State Contributions		District
		Made to TRS On-Behalf of Employees	Contributions Related to Above Statutory Minimum Salaries	
2014	\$ 1,034,759	\$ 1,047,264	\$ 149,318	
2013	955,762	863,892	106,246	
2012	923,232	923,911	119,875	

J. EMPLOYEE HEALTH CARE COVERAGE

For the year ended August 31, 2014, employees of the District were covered by a state-wide plan, TRS Active Care. The District paid premiums of \$210 per month per employee to the Plan with the State providing an additional \$75. Employees, at their option may authorize payroll withholdings to pay premiums for dependent coverage. The Teacher Retirement System of Texas (TRS) manages TRS Active Care. The Plan is administered by Blue Cross and Blue Shield of Texas while Medco Health was assigned the prescription drug plan.

K. RETIREE HEALTH CARE PLANS

1. TRS-Care

Plan Description

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

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
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Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of the public school payroll, respectively, with school districts contributing a percentage of payrolls set at 0.55% for fiscal years 2014, 2013, and 2012.

2. Medicare Part-D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part-D. One of the provisions of Medicare Part-D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants.

A summary of the subsidy payments received by TRS-Care on behalf of the District for the last three fiscal years is as follows:

<u>Medicare Part-D</u>	
Fiscal Year	Medicare Part-D State On-Behalf Payments
2014	\$ 43,494
2013	40,035
2012	37,563

3. Early Retiree Reinsurance Program (ERRP)

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 sponsor. This temporary program is available to help employers continue to provide coverage to early retirees. ERRP reimbursement is available on a first come, first served basis for qualified employers that apply and become certified for the program. TRS has been certified for this program and has received funds from the ERRP program.

Early Retiree Reinsurance Program State	
Fiscal Year	On-Behalf Payments
2014	\$ -
2013	-
2012	35,523

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2014

L. DUE FROM STATE AGENCIES

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

Fund	State Entitlements	Federal Grants	Other Governments	Total
General Fund	\$ 353,037	\$ -	\$ 83,393	\$ 436,430
Non-Major Governmental Funds	18,676	51,306	-	69,982
Total	<u>\$ 371,713</u>	<u>\$ 51,306</u>	<u>\$ 83,393</u>	<u>\$ 506,412</u>

M. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

Type	General Fund	Debt Service Fund	Capital Projects Funds	Non-Major Governmental Funds	Total
Property Taxes	\$ 11,568,528	\$ 5,502,451	\$ -	\$ -	\$ 17,070,979
Tuition and Fees	50,543	-	-	-	50,543
Investment Income	32,337	6,728	18,245	-	57,310
Rent	41,034	-	-	-	41,034
Gifts	37,648	-	-	-	37,648
Insurance Recovery	1,054	-	-	-	1,054
Food Sales	-	-	-	694,282	694,282
Athletics	132,134	-	-	-	132,134
Enterprising Revenues	-	-	-	349,249	349,249
Miscellaneous Local Revenue	38,940	-	-	1,000	39,940
Total	<u>\$ 11,902,218</u>	<u>\$ 5,509,179</u>	<u>\$ 18,245</u>	<u>\$ 1,044,531</u>	<u>\$ 18,474,173</u>

N. LITIGATION

As of year end, there was either no litigation pending against or no litigation meeting the requirements of disclosure.

O. SUBSEQUENT EVENTS

In November 2014, a \$15.7 million unlimited tax refunding bond was approved by the district. These bonds were partially current interest bonds and partially capital appreciation bonds. Proceeds will be used to refund the Unlimited Tax School Building Bonds, Series 2006 and the capital appreciation bond portion of the Unlimited Tax School Building Bonds, series 2011.

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 FOR THE YEAR ENDED AUGUST 31, 2014

P. COMMITMENTS AND CONTINGENCIES

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

Q. RESTATEMENT OF NET POSITION/FUND BALANCE

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* (GASB 65) which is effective for periods beginning after December 15, 2012, with early application encouraged. This statement specifies that costs related to the issuance of debt will no longer be recorded as a deferred charge and amortized over the life of the debt. These costs should instead be recognized as an expense in the period incurred. Accounting changes to comply with this statement should be applied retroactively by restating financial statements for all periods presented. If restatement is impractical, the cumulative effect of applying this statement should be reported as a restatement of beginning net position for the earliest period presented. The District also did not record as interest expense an accrued interest balance in the prior year in the Capital Projects Funds.

The cumulative effect of the application of GASB 65 and restatement of beginning net position is as follows:

Net Position as Previously Stated at August 31, 2013	\$ 3,166,317
Effect of Removal of Accrued Interest beginning balance that should have been recorded as interest expense in the prior year from beginning fund balance	(234,621)
Cumulative Effect of Change in Accounting Principle Related to Removal of Deferred Bond Issuance Costs from the Statement of Net Position	<u>(1,009,320)</u>
Net Position as Restated at August 31, 2013	<u><u>\$ 1,922,376</u></u>

The effect of realizing prior year interest expense and restatement of beginning fund balance in the Capital Projects Funds is as follows:

Fund Balance as Previously Stated at August 31, 2013	\$ 7,906,794
Effect of Removal of Accrued Interest beginning balance that should have been recorded as interest expense in the prior year from beginning fund balance.	<u>(234,621)</u>
Fund Balance as Restated at August 31, 2013	<u><u>\$ 7,672,173</u></u>

COMBINING SCHEDULES

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2014

Data	206	211	224	225	240
Control	ESEA, Title	ESEA, Title I,	IDEA-Part B,	IDEA-Part B,	National
Codes	X, Part C	Part A	Formula	Preschool	Breakfast and Lunch Program
ASSETS					
1110 Cash and Cash Equivalents	\$ -	\$ 2,742	\$ 30,252	\$ 2,499	\$ -
1240 Due from Other Governments	-	-	37,715	3,438	9,328
1260 Due from Other Funds	-	-	-	-	804
1290 Other Receivables	-	-	-	-	28,342
1000 Total Assets	<u>\$ -</u>	<u>\$ 2,742</u>	<u>\$ 67,967</u>	<u>\$ 5,937</u>	<u>\$ 38,474</u>
LIABILITIES					
2110 Accounts Payable	\$ -	\$ -	\$ 14,906	\$ 2,499	\$ 17,319
2160 Accrued Wages Payable	-	-	-	-	12,752
2170 Due to Other Funds	-	2,742	48,651	2,829	8,403
2180 Due to Other Governments	-	-	4,410	609	-
2000 Total Liabilities	<u>-</u>	<u>2,742</u>	<u>67,967</u>	<u>5,937</u>	<u>38,474</u>
FUND BALANCES					
Committed for:					
3545 Other Committed Fund Balance	-	-	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 2,742</u>	<u>\$ 67,967</u>	<u>\$ 5,937</u>	<u>\$ 38,474</u>

255	263	289	410	461	Total
ESEA, Title II, Part A	Title III, Part A	Federally Funded Spec. Rev. Fund	State Textbook Fund	Campus Activity Funds	Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 100,313	\$ 135,806
-	824	-	18,677	-	69,982
-	-	-	-	-	804
-	-	-	-	-	28,342
<u>\$ -</u>	<u>\$ 824</u>	<u>\$ -</u>	<u>\$ 18,677</u>	<u>\$ 100,313</u>	<u>\$ 234,934</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,724
-	-	-	-	-	12,752
-	824	-	18,677	-	82,126
-	-	-	-	-	5,019
<u>-</u>	<u>824</u>	<u>-</u>	<u>18,677</u>	<u>-</u>	<u>134,621</u>
-	-	-	-	100,313	100,313
-	-	-	-	100,313	100,313
<u>\$ -</u>	<u>\$ 824</u>	<u>\$ -</u>	<u>\$ 18,677</u>	<u>\$ 100,313</u>	<u>\$ 234,934</u>

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

Data Control Codes	206	211	224	225	240 National Breakfast and Lunch Program
	ESEA, Title X, Part C	ESEA, Title I, Part A	IDEA-Part B, Formula	IDEA-Part B, Preschool	
REVENUES:					
5700 Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -	\$ 695,281
5800 State Program Revenues	-	-	-	-	6,607
5900 Federal Program Revenues	2,380	133,588	452,911	9,483	540,161
5020 Total Revenues	2,380	133,588	452,911	9,483	1,242,049
EXPENDITURES:					
0011 Instruction	1,080	133,588	187,435	9,483	-
0013 Curriculum & Instructional Staff Dev.	-	-	7,032	-	-
0021 Instructional Leadership	-	-	30,294	-	-
0031 Guidance, Counseling & Evaluation Svcs.	-	-	228,150	-	-
0032 Social Work Services	1,300	-	-	-	-
0035 Food Services	-	-	-	-	1,343,783
0036 Cocurricular/Extracurricular Activities	-	-	-	-	-
0051 Plant Maintenance and Operations	-	-	-	-	7,864
6030 Total Expenditures	2,380	133,588	452,911	9,483	1,351,647
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-	(109,598)
OTHER FINANCING SOURCES (USES):					
7915 Transfers In	-	-	-	-	108,219
7080 Total Other Financing Sources (Uses)	-	-	-	-	108,219
1200 Net Change in Fund Balance	-	-	-	-	(1,379)
0100 Fund Balance - Beginning	-	-	-	-	1,379
3000 Fund Balance - Ending	\$ -	\$ -	\$ -	\$ -	\$ -

255	263	289	410	461	Total
ESEA, Title II, Part A	Title III, Part A	Federally Funded Spec. Rev. Fund	State Textbook Fund	Campus Activity Funds	Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 349,250	\$ 1,044,531
-	-	-	550,249	-	556,856
47,214	824	2,226	-	-	1,188,787
47,214	824	2,226	550,249	349,250	2,790,174
40,305	824	2,226	550,249	-	925,190
6,909	-	-	-	-	13,941
-	-	-	-	-	30,294
-	-	-	-	-	228,150
-	-	-	-	-	1,300
-	-	-	-	-	1,343,783
-	-	-	-	318,115	318,115
-	-	-	-	-	7,864
47,214	824	2,226	550,249	318,115	2,868,637
-	-	-	-	31,135	(78,463)
-	-	-	-	-	108,219
-	-	-	-	-	108,219
-	-	-	-	31,135	29,756
-	-	-	-	69,178	70,557
\$ -	\$ -	\$ -	\$ -	\$ 100,313	\$ 100,313

TEA REQUIRED SCHEDULES

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FOR THE YEAR ENDED AUGUST 31, 2014

Last 10 Years Ended August 31,		1	2	3
		Tax Rates		Assessed/Appraised Value for School Tax Purposes
		Maintenance	Debt Service	
2005	and prior years	Various	Various	Various
2006		1.50000	0.16500	\$ 602,527,115
2007		1.50000	0.16500	699,134,085
2008		1.37000	0.21000	832,280,252
2009		1.04000	0.21000	966,712,884
2010		1.04000	0.21000	1,024,302,844
2011		1.04000	0.22000	1,017,614,474
2012		1.04000	0.29500	1,029,663,371
2013		1.04000	0.41000	1,033,273,034
2014	(School year under audit)	1.04000	0.50000	1,081,715,260
TOTALS				

10	20	31	32	40	50
Beginning Balance 9/1/13	Current Year's Total Levy	Maintenance Collections	Debt Service Collections	Entire Year's Adjustments	Ending Balance 8/31/14
\$ 20,276	\$ -	\$ 64	\$ 7	\$ (5,159)	\$ 15,046
3,984	-	104	11	(2)	3,867
7,252	-	1,490	164	(1)	5,597
7,272	-	2,356	361	2	4,557
7,523	-	1,397	282	(362)	5,482
8,460	-	2,160	436	(187)	5,677
(3,321)	-	385	82	12,107	8,319
93,393	-	44,693	12,677	(25,759)	10,264
189,351	-	107,022	42,192	(17,942)	22,195
-	16,658,415	11,260,042	5,413,481	420,072	404,964
<u>\$ 334,190</u>	<u>\$ 16,658,415</u>	<u>\$ 11,419,713</u>	<u>\$ 5,469,693</u>	<u>\$ 382,769</u>	<u>\$ 485,968</u>

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

Data Control Codes	Budgeted Amounts		Actual Amounts	Variance With Final Budget	
	Original	Final	(GAAP BASIS)		
REVENUES:					
5700	Local & Intermediate Sources	\$ 727,831	\$ 700,831	\$ 695,281	\$ (5,550)
5800	State Program Revenues	6,500	6,500	6,607	107
5900	Federal Program Revenues	573,584	543,584	540,161	(3,423)
5020	Total Revenues	1,307,915	1,250,915	1,242,049	(8,866)
EXPENDITURES:					
0035	Food Services	1,240,915	1,315,915	1,343,783	(27,868)
0051	Facilities Maintenance & Operations	67,000	67,000	7,864	59,136
6030	Total Expenditures	1,307,915	1,382,915	1,351,647	31,268
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(132,000)	(109,598)	22,402
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	132,000	108,219	(23,781)
7080	Total Other Finance Sources (Uses)	-	132,000	108,219	(23,781)
1200	Net Change in Fund Balances	-	-	(1,379)	(1,379)
0100	Fund Balance-September 1 (Beginning)	1,379	1,379	1,379	-
3000	Fund Balance-August 31 (Ending)	\$ 1,379	\$ 1,379	\$ -	\$ (1,379)

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget	
	Original	Final			
REVENUES:					
5700	Local & Intermediate Sources	\$ 5,621,100	\$ 5,546,100	\$ 5,509,179	\$ (36,921)
5020	Total Revenues	5,621,100	5,546,100	5,509,179	(36,921)
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	200,000	200,000	200,000	-
0072	Interest on Long Term Debt	5,325,962	5,325,962	5,325,961	1
0073	Bond Issuance Cost and Fees	5,000	6,000	5,625	375
6030	Total Expenditures	5,530,962	5,531,962	5,531,586	376
1200	Net Change in Fund Balances	90,138	14,138	(22,407)	(36,545)
0100	Fund Balance-September 1 (Beginning)	33,436	33,436	33,436	-
3000	Fund Balance-August 31 (Ending)	\$ 123,574	\$ 47,574	\$ 11,029	\$ (36,545)

FEDERAL AWARDS SECTION



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

To the Board of Trustees of
Liberty Hill Independent School District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Liberty Hill Independent School District, as of and for the year ended August 31, 2014, and the related notes to the financial statements, which collectively comprise Liberty Hill Independent School District's basic financial statements, and have issued our report thereon dated November 25, 2014.

Internal Control Over Financial Reporting

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

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

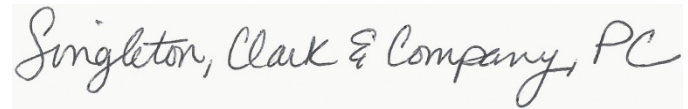
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Liberty Hill Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2014-001.

Purpose of this Report

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

A handwritten signature in black ink that reads "Singleton, Clark & Company, P.C." The signature is written in a cursive style and is set against a light gray rectangular background.

Singleton, Clark & Company, P.C.
Cedar Park, Texas

November 25, 2014



REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY OMB CIRCULAR A-133

Independent Auditors' Report

To the Board of Trustees of
Liberty Hill Independent School District

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of Liberty Hill Independent School District as of and for the year ended August 31, 2014, and have issued our report thereon dated November 25, 2014, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.



Singleton, Clark & Company, P.C.
Cedar Park, Texas

November 25, 2014

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

FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	1 Federal CFDA Number	2a Pass-Through Entity Identifying Number	3 Federal Expenditures
U.S DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education:</u>			
ESEA-Title X, Part C	84.196	14-246908	\$ 2,380
ESEA-Title I, Part A	84.010A	14-610101246908	133,588
IDEA-Part B, Formula*	84.027A	14-6600012469086000	452,912
IDEA-Part B, Preschool*	84.173A	14-6610012469086000	9,483
Title II, Part A, Improving Teacher Quality	84.367A	14-694501246908	47,214
Title III, Part A, Language	84.365A	14-246908	824
Summer School LEP	84.369A	69551302	2,226
Total Passed Through State Dept of Education			648,627
TOTAL U.S. DEPARTMENT OF EDUCATION			648,627
U.S. DEPARTMENT OF AGRICULTURE			
<u>Direct Programs:</u>			
Team Nutrition Grant - Health School Challenge	10.574	14-246908	1,500
Total Direct Programs			1,500
<u>Passed Through Texas Education Agency:</u>			
School Breakfast Program*	10.553	71401401	105,458
National School Lunch Program - Cash Assistance*	10.555	71301401	359,950
Total Passed Through Texas Education Agency			465,408
<u>Passed Through the Texas Department of Agriculture:</u>			
Non-Cash Assistance - Food Distribution Program*	10.555	14-246908	73,252
Total Passed Through Texas Department of Agriculture			73,252
TOTAL DEPARTMENT OF AGRICULTURE			540,160
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,188,787
School Health and Related Services (SHARS) Revenue - <i>Not considered Federal Financial Assistance</i>			\$ 366,539
TOTAL FEDERAL REVENUE PER THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE			\$ 1,555,326

* Clustered programs as defined in OMB Compliance Supplement 2014.

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2014

General – The accompanying schedule of expenditures of federal awards presents all federal expenditures of the Liberty Hill Independent School District (the “District”).

Basis of Accounting – The expenditures on the accompanying schedule of expenditures of federal awards are presented using the modified accrual basis of accounting, with the exception of the National School Lunch Program, School Breakfast Program, and the Food Distribution Program. Under the modified accrual basis of accounting, revenue is recognized in the accounting period in which it becomes available and measurable, and expenditures in the accounting period in which the fund liability is incurred, if measurable. Expenditures in the National School Lunch Program, School Breakfast Program, and the Food Distribution Program are not specifically attributable to this revenue source and are shown on the accompanying schedule of expenditures of federal awards in an amount equal to revenue for balancing purposes only.

Relationship to the Basic Financial Statements – Expenditures of federal awards are reported in the District’s basic financial statements in special revenue funds.

Relationship to Federal Financial Reports – Amounts reported in the accompanying schedule of expenditures of federal awards agree with the amounts reported in the related federal financial reports in all significant respects.

Valuation of Non-cash Programs – The District values revenues and expenditures for the Food Distribution Program based on the value of commodities received.

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

SECTION I – SUMMARY OF AUDITOR’S RESULTS

FINANCIAL STATEMENTS

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

FEDERAL AWARDS

Internal control over major programs:

- Material weakness(es) identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

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

National School Breakfast & Lunch Program	Unmodified
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Any audit findings disclosed that are required to be Reported with section 510(a) of Circular A-133? Yes No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553, 10.555	National School Breakfast & Lunch Program

Dollar threshold used to distinguish Type A and Type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED AUGUST 31, 2014

SECTION II – FINANCIAL STATEMENT FINDINGS

Findings Related to Financial Statements Which are Required to be Reported in Accordance with Government Auditing Standards:

2014-001 Budgetary Overage

Criteria: Each year the District’s Board of Trustees adopts an appropriations budget which limits expenditure amounts within specific line items that can be made by management.

Condition Found: As of year end, actual expenditure amounts in Function 35 in the Child Nutrition Fund exceeded amended budget amounts by \$27,868.

Cause: The District did not make budget amendments necessary in the Child Nutrition Fund between function 35 and function 51.

Effect: The effect is a technical noncompliance with the legally adopted appropriations budget.

Recommendation: We recommend that the District closely monitor expenditure line items and amend the budget as required.

Management Views/
Corrective Action Planned: Management will closely monitor expenditures and amend the appropriations budget during the year.

Contact Person: Frank Watson, Chief Financial Officer

No findings or questioned costs required to be reported in accordance with *Government Auditing Standards* for the year ended August 31, 2013.

SECTION III – FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Findings Related to Federal Awards Which are Required to be Reported in Accordance with Section 510(c) of OMB Circular A-133:

No findings or questioned costs required to be reported in accordance with Section 510(c) of OMB Circular A-133 for the years ended August 31, 2014 and 2013.

LIBERTY HILL INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
 FOR THE YEAR ENDED AUGUST 31, 2014

Data Control Codes		1 Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	No
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	No
SF10	What was the total accumulated accretion on capital appreciation bonds included in the government-wide financial statements at fiscal year-end?	\$ 4,289,241