

BONHAM INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2014

BONHAM INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
YEAR ENDED JUNE 30, 2014

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CERTIFICATE OF BOARD

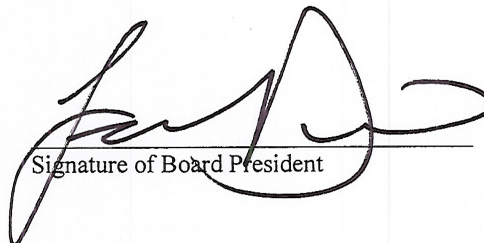
Bonham Independent School District
Name of School District

Fannin
County

074-903
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 June 30, 2014 at a meeting of the Board of Trustees of such school district on the 20th day of October, 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)

INTRODUCTORY SECTION

McClanahan and Holmes, LLP
CERTIFIED PUBLIC ACCOUNTANTS

R. E. BOSTWICK, CPA
STEVEN W. MOHUNDRO, CPA
GEORGE H. STRUVE, CPA
ANDREW B. REICH, CPA
RUSSELL P. WOOD, CPA
DEBRA J. WILDER, CPA

228 SIXTH STREET S.E.
PARIS, TEXAS 75460
903-784-4316
FAX 903-784-4310

304 WEST CHESTNUT
DENISON, TEXAS 75020
903-465-6070
FAX 903-465-6093

1400 WEST RUSSELL
BONHAM, TEXAS 75418
903-583-5574
FAX 903-583-9453

REPORT ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND
OTHER SUPPLEMENTARY INFORMATION INCLUDING THE SUPPLEMENTARY
SCHEDULES OF EXPENDITURES OF FEDERAL AWARDS

Independent Auditor's Report

Board of Trustees
Bonham Independent School District
1005 Chestnut Street
Bonham, Texas 75418

Members of the Board:

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 Bonham Independent School District as of and for the year ended June 30, 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 accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Bonham Independent School District as of June 30, 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 and budgetary comparison information on pages 5 and 41 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 Bonham Independent School District's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-5. Except for Exhibit J-3 (Fund Balance and Cash Flow Calculation Worksheet) which is marked **UNAUDITED** and on which we express no opinion, these schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2014, on our consideration of Bonham 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 Bonham Independent School District's internal control over financial reporting and compliance.

McClanahan and Holmes, LLP

Certified Public Accountants

October 13, 2014

BONHAM INDEPENDENT SCHOOL DISTRICT **MANAGEMENT’S DISCUSSION AND ANALYSIS** **YEAR ENDED JUNE 30, 2014**

This section of Bonham Independent School District’s annual financial report presents our discussion and analysis of the District’s financial performance during the fiscal year ended June 30, 2014. Please read it in conjunction with the District’s financial statements, which follow this section.

FINANCIAL AND OTHER HIGHLIGHTS

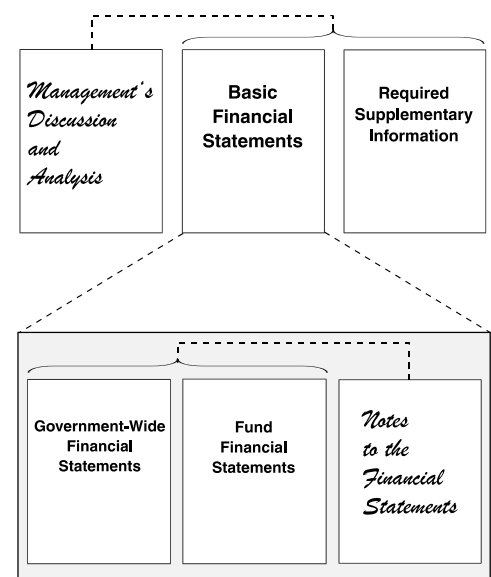
- The District’s total combined net position was \$12,609,360 as of June 30, 2014. This is an increase in net position of \$707,525 from the balance on June 30, 2013.
- During the year, the District’s expenditures were \$717,316 less than the \$19,768,113 generated in taxes and other revenues for governmental activities.
- The general fund reported a fund balance this year of \$6,114,977, an increase of \$1,630,654.
- On May 12, 2012, the community approved a bond for additions and renovations to the I.W. Evans Intermediate School in the amount of \$7,000,000. The Project was completed in the 2014 fiscal year and total cost was \$7,608,010. The amount in excess of seven million was approved to be funded out of The General Fund fund balance. The I&S tax rate was increased in 2012 from \$.08 to \$.155.
- During the year the district issued \$990,000 in Time Warrants, \$1,000,000 in Maintenance Tax Notes, and \$1,108,800 in Public Property Financing Contracts for capital improvements. Some of the capital improvements include turf for Warrior Stadium, new flooring at L. H. Rather Jr. High, new playground equipment at Finley Oates, new HVAC units for the gymnasium at L. H. Rather Jr. High, new band instruments, and district wide fencing. As of June 30, 2014 the District still must complete the new softball field, rekeying of L. H. Rather Jr. High and the new Agriculture Facilities. The remaining balance at June 30, 2014 is \$1,544,782.
- The District once again received a Superior Rating from the Financial Integrity System of Texas (FIRST).
- The District received the Texas Comptroller Platinum Leadership Circle Award for financial transparency. This is the second year the district has received the highest level of the Texas Comptroller Leadership Circle Award.

OVERVIEW OF THE FINANCIAL STATEMENTS

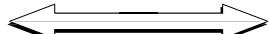
This annual report consists of three parts—*management’s discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District’s overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District’s operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*, such as workers comp fund.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

Figure A-1. Required Components of the District’s Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains

Summary  **Detail**

BONHAM INDEPENDENT SCHOOL DISTRICT **MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)** **YEAR ENDED JUNE 30, 2014**

and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's net position and how they have changed. Net position—the difference between the District's assets and liabilities—is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's tax base.

The government-wide financial statements of the District include the *Governmental Activities*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes and grants finance most of these activities.

Fund Financial Statements

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

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has three kinds of funds:

- *Governmental funds*—Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

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

Type of Statements	Fund Statements			
	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self insurance	Instances in which the district is the trustee or agent for someone else's resources
Required financial statements	♦ Statement of net assets	♦ Balance sheet	♦ Statement of net assets	♦ Statement of fiduciary net assets
	♦ Statement of activities	♦ Statement of revenues, expenditures & changes in fund balances	♦ Statement of revenues, expenses and changes in fund net assets ♦ Statement of cash flows	
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

**BONHAM INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

- *Proprietary funds*—Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
- *Fiduciary funds*—The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that—because of a trust arrangement—can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was \$ 12,609,360 at June 30, 2014. (See Table A-1).

<p style="text-align: center;">Table A-1 Bonham Independent School District's Net Assets</p>			
	Governmental Activities		Total Percentage Change
	<u>2014</u>	<u>2013</u>	<u>2014-2013</u>
Assets:			
Cash and Cash Equivalents	\$ 5,761,727	\$ 9,802,650	-41%
Other Current Assets	3,714,540	3,127,165	19%
Capital Assets less Accumulated	19,022,876	15,219,919	25%
Total Assets	<u>\$28,499,143</u>	<u>\$28,149,734</u>	<u>1%</u>
Liabilities:			
Current Liabilities	\$ 1,745,699	4,512,387	-61%
Long-term Liabilities	14,144,084	11,735,512	21%
Total Liabilities	<u>\$15,889,783</u>	<u>\$16,247,899</u>	<u>-2%</u>
Net Assets:			
Invested in Capital Assets	\$ 4,878,792	\$ 3,484,407	40%
Restricted	935,000	2,957,875	-68%
Unrestricted	6,795,568	5,459,553	24%
Total Net Assets	<u><u>\$12,609,360</u></u>	<u><u>\$11,901,835</u></u>	<u><u>6%</u></u>

Approximately \$935,000 of the District's restricted net position represents funds retained for debt retirement. These funds are restricted for tax supported debt retirement. The \$6,795,568 of unrestricted net assets represents resources available to fund the programs of the District next year.

**BONHAM INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

Changes in net position.

The District's total revenues were \$19,768,113. A significant portion, thirty-four percent (34%) of the District's revenue, came from taxes. (See Figure A-2.) Fifty-nine percent (59%) came from state aid and grants, while only seven percent (7%) related to charges for service and other revenue.

The total cost of all programs and services was \$19,050,787. Fifty-one percent (51%) of these costs are for instruction and instructional related student services.

Governmental Activities

Table A-2 Changes in Bonham Independent School District's Net Assets			
	Governmental Activities		Total Percentage Change
	<u>2014</u>	<u>2013</u>	<u>2014-2013</u>
Program Revenues:			
Charges for Services	\$ 926,422	\$ 574,584	61.23%
Operating Grants and Contributions	3,087,400	3,430,426	-10.00%
Capital Grants and Contributions	-	-	
General Revenues:			
Property Taxes	6,743,220	6,609,678	2.02%
State Aid – Formula	8,643,450	7,724,439	11.90%
Investment Earnings	9,850	39,269	-74.92%
Other	357,771	369,682	-3.22%
Total Revenues	<u>\$ 19,768,113</u>	<u>\$ 18,748,078</u>	<u>5.44%</u>
Expenses:			
Instruction	\$ 9,438,168	\$ 9,082,314	3.92%
Instructional Resources and Media Services	190,026	194,965	-2.53%
Curriculum Dev. and Instructional Staff Dev.	119,002	245,107	-51.45%
Instructional Leadership	237,410	148,668	59.69%
School Leadership	1,123,090	974,312	15.27%
Guidance, Counseling and Evaluation Services	332,306	369,332	-10.03%
Health Services	116,323	159,064	-26.87%
Student Transportation	655,881	636,970	2.97%
Food Services	1,218,488	1,094,882	11.29%
Extracurricular Activities	834,784	692,497	20.55%
General Administration	819,696	679,462	20.64%
Plant Maintenance & Oper.	2,384,077	2,196,006	8.56%
Security & Monitoring Svcs.	132,111	51,344	157.31%
Data Processing Services	469,601	205,232	128.81%
Debt Service	418,648	501,591	-16.54%
Facilities Acquisition and Construction	35,851	-	100.00%
Payments for Shared Service Arrangements	272,640	252,450	8.00%
Other Intergovernmental Charges	252,685	222,001	13.82%
Total Expenses	<u>\$ 19,050,787</u>	<u>\$ 17,706,197</u>	<u>7.59%</u>
Excess (Deficiency) Before Other Resources, Uses, and Transfers	<u>\$ 717,326</u>	<u>\$ 1,041,881</u>	<u>-31.15%</u>
Increase (Decrease) in Net Position	<u>\$ 717,326</u>	<u>\$ 1,041,881</u>	<u>-31.15%</u>
Net Position - Beginning (July 1)	11,901,835	10,859,954	9.59%
Prior Period Adjustment	(9,801)	-	-100.00%
Net Position - Ending (June 30)	<u><u>\$ 12,609,360</u></u>	<u><u>\$ 11,901,835</u></u>	<u><u>5.94%</u></u>

**BONHAM INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

Table A-3 presents the cost of each of the District's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$19,050,787.
- The amount our taxpayers paid for these activities through property taxes was \$6,743,220.
- Some of the costs were paid by those who directly benefited from the programs amounting to \$926,422, or
- By grants and contributions in the amount of \$3,087,400.

Table A-3						
Net Cost of Selected District Functions						
	Total Cost of		% Change	Net Cost of		% Change
	Services			Services		
	<u>2014</u>	<u>2013</u>		<u>2014</u>	<u>2013</u>	
Instruction	\$9,438,168	\$9,082,314	4%	\$7,381,195	\$7,223,002	2%
School Leadership	1,123,090	974,312	15%	1,052,427	890,554	18%
Facilities Maintenance & Operations	2,384,077	2,196,006	9%	2,315,442	2,135,064	8%
Debt Service	454,499	501,591	-9%	454,499	501,591	-9%

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$19,768,113. This is an increase of five (5%) percent from the revenue generated in the previous year. This represents an increase of \$1,020,035, over the prior year revenues of \$18,748,078. This increase is attributed to student growth and increased tax collections.

Expenditures in the governmental funds totaled \$19,050,787. This is an increase of seven (7%) percent from the expenses in the previous year. This represents an increase of \$1,344,590, over the prior year expenditures of \$17,706,197. This increase is attributed to student growth.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget several times. With these adjustments, actual expenditures were \$1,623,796 below final budget amounts. The total resources available were \$656,967 above the final budgeted amount.

**BONHAM INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2014, the District had invested \$31,745,368 in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-4.) The increase in buildings and improvements resulted from the renovation of the IW Evans Campus.

Table A-4			
District's Capital Assets			
	Governmental Activities		Total Percentage Change 2014-2013
	<u>2014</u>	<u>2013</u>	<u>2014-2013</u>
Land	\$ 621,389	\$ 621,389	0%
Buildings and Improvements	26,452,652	19,057,739	39%
Vehicles	1,943,893	1,997,804	-3%
Equipment	1,214,321	777,760	56%
Construction in Progress	1,513,113	4,826,774	-69%
Totals	<u>\$ 31,745,368</u>	<u>\$ 27,281,466</u>	<u>27%</u>
Total Accumulated Depreciation	<u>(12,722,492)</u>	<u>(12,061,547)</u>	<u>6%</u>
Net Capital Assets	<u>\$ 19,022,876</u>	<u>\$ 15,219,919</u>	<u>51%</u>

Long Term Debt

At the end of the year, the District had \$14,144,084 in bonds and maintenance tax notes outstanding as shown in Table A-5. More detailed information about the District's debt is presented in the Notes to the Financial Statements.

Table A-5			
Bonham Independent School District's Long Term Debt			
	Governmental Activities		Total Percentage Change 2014-2013
	<u>2014</u>	<u>2013</u>	<u>2014-2013</u>
Bonds Payable	\$ 10,209,049	\$ 10,738,336	-5%
Loans Payable	3,935,035	997,177.00	295%
Other Debt	-	-	0%
Total Bonds & Notes Payable	<u>\$ 14,144,084</u>	<u>\$11,735,513</u>	<u>21%</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- Appraised value used for 2014-2015 budget preparation was up; it changed by \$18,023,443 which is an increase of fifteen percent (15%) from the previous year.
- The property tax rate adopted for 2014-2015 is \$1.1961. \$1.0401 of the total rate is specifically levied for current maintenance and operation expenses and \$.1560 of the total rate is specifically levied for the payment of principal and interest on bond debt.

**BONHAM INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
YEAR ENDED JUNE 30, 2014**

- The maintenance and operation tax rate have remained the same for the last five years. The debt service tax rate increased by less than one cent from the prior year.
- The State has increased funding levels for the 2013-2015 biennium, which will affect the revenue levels of the District. With these increases in funding, the District anticipates monitoring expenditure levels to ensure financial stability remains strong.
- A challenge to the State's funding system resulted in the system being held unconstitutional and inequitable. The 2013 legislative session produced additional funding for the student population. However, the legal process continues with challenges by the various interested parties. It is anticipated that a final resolution will be considered during the 2013-2015 biennium.

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 demonstrate the District's accountability for the money it receives. For questions about this report or additional financial information, contact the District's Administration.

BASIC FINANCIAL STATEMENTS

BONHAM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2014

Data Control Codes		Governmental Activities
<hr/>		
ASSETS		
1110	Cash and Cash Equivalents	\$ 2,130,386
1120	Current Investments	3,631,341
1220	Property Taxes Receivable (Delinquent)	609,298
1230	Allowance for Uncollectible Taxes	(77,907)
1240	Due from Other Governments	3,088,026
1300	Inventories	10,896
1410	Prepayments	84,227
	Capital Assets:	
1510	Land	621,389
1520	Buildings, Net	15,149,562
1530	Furniture and Equipment, Net	1,738,812
1580	Construction in Progress	1,513,113
		<hr/>
1000	Total Assets	28,499,143
		<hr/>
LIABILITIES		
2110	Accounts Payable	138,684
2160	Accrued Wages Payable	1,297,246
2200	Accrued Expenses	300,863
2300	Unearned Revenue	8,906
	Noncurrent Liabilities	
2501	Due Within One Year	906,249
2502	Due in More Than One Year	13,237,835
		<hr/>
2000	Total Liabilities	15,889,783
		<hr/>
NET POSITION		
3200	Net Investment in Capital Assets	4,878,792
3850	Restricted for Debt Service	935,000
3900	Unrestricted	6,795,568
		<hr/>
3000	Total Net Position	\$ 12,609,360
		<hr/>

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

BONHAM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 9,438,168	\$ 547,914	\$ 1,509,059	\$ (7,381,195)
12 Instructional Resources and Media Services	190,026	-	18,551	(171,475)
13 Curriculum and Staff Development	119,002	-	52,580	(66,422)
21 Instructional Leadership	237,410	-	57,651	(179,759)
23 School Leadership	1,123,090	-	70,663	(1,052,427)
31 Guidance, Counseling and Evaluation Services	332,306	-	17,096	(315,210)
33 Health Services	116,323	-	56,591	(59,732)
34 Student (Pupil) Transportation	655,881	-	22,890	(632,991)
35 Food Services	1,218,488	245,672	1,030,320	57,504
36 Extracurricular Activities	834,784	132,836	130,705	(571,243)
41 General Administration	819,696	-	26,132	(793,564)
51 Facilities Maintenance and Operations	2,384,077	-	68,635	(2,315,442)
52 Security and Monitoring Services	132,111	-	3,266	(128,845)
53 Data Processing Services	469,601	-	23,261	(446,340)
72 Debt Service - Interest on Long Term Debt	418,648	-	-	(418,648)
73 Debt Service - Bond Issuance Cost and Fees	35,851	-	-	(35,851)
93 Payments related to Shared Services Arrangements	272,640	-	-	(272,640)
99 Other Intergovernmental Charges	252,685	-	-	(252,685)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 19,050,787	\$ 926,422	\$ 3,087,400	(15,036,965)
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			5,915,378
DT	Property Taxes, Levied for Debt Service			827,842
GC	Grants and Contributions not Restricted			8,643,450
IE	Investment Earnings			9,850
MI	Miscellaneous Local and Intermediate Revenue			357,771
TR	Total General Revenues			15,754,291
CN	Change in Net Position			717,326
NB	Net Position - Beginning			11,901,835
PA	Prior Period Adjustment			(9,801)
NE	Net Position--Ending			\$ 12,609,360

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

BONHAM INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2014

Data Control Codes	10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 563,529	\$ 468,132	\$ 1,097,734	\$ 2,129,395
1120 Investments - Current	3,126,209	505,132	-	3,631,341
1220 Property Taxes - Delinquent	549,342	-	59,956	609,298
1230 Allowance for Uncollectible Taxes (Credit)	(70,474)	-	(7,433)	(77,907)
1240 Receivables from Other Governments	2,606,442	-	481,584	3,088,026
1260 Due from Other Funds	965,710	-	-	965,710
1300 Inventories	-	-	10,896	10,896
1410 Prepayments	84,227	-	-	84,227
1000 Total Assets	<u>\$ 7,824,985</u>	<u>\$ 973,264</u>	<u>\$ 1,642,737</u>	<u>\$ 10,440,986</u>
LIABILITIES				
2110 Accounts Payable	\$ 63,223	\$ 7,554	\$ 16,454	\$ 87,231
2160 Accrued Wages Payable	1,104,404	-	192,842	1,297,246
2170 Due to Other Funds	-	965,710	-	965,710
2200 Accrued Expenditures	63,513	-	25,011	88,524
2300 Unearned Revenues	-	-	8,906	8,906
2000 Total Liabilities	<u>1,231,140</u>	<u>973,264</u>	<u>243,213</u>	<u>2,447,617</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	478,868	-	52,523	531,391
2600 Total Deferred Inflows of Resources	<u>478,868</u>	<u>-</u>	<u>52,523</u>	<u>531,391</u>
FUND BALANCES				
Nonspendable Fund Balance:				
3410 Inventories	-	-	10,896	10,896
Restricted Fund Balance:				
3470 Capital Acquisition and Contractual Obligation	1,544,782	-	-	1,544,782
3480 Retirement of Long-Term Debt	-	-	935,000	935,000
Committed Fund Balance:				
3525 Retirement of Loans or Notes Payable	836,135	-	-	836,135
Assigned Fund Balance:				
3590 Other Assigned Fund Balance	-	-	401,105	401,105
3600 Unassigned Fund Balance	3,734,060	-	-	3,734,060
3000 Total Fund Balances	<u>6,114,977</u>	<u>-</u>	<u>1,347,001</u>	<u>7,461,978</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 7,824,985</u>	<u>\$ 973,264</u>	<u>\$ 1,642,737</u>	<u>\$ 10,440,986</u>

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

BONHAM INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2014

Total Fund Balances - Governmental Funds	\$ 7,461,978
1 Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of these assets are \$31,745,368, and the accumulated depreciation is \$12,722,492.	19,022,876
2 Property taxes receivable will be collected this year but are not available soon enough to pay for the current period's expenditures, and therefore are deferred in the funds.	531,391
3 An internal service fund is used by the district's management to charge the costs of workers' compensation claims to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.	(50,462)
4 Long-term liabilities, including bonds and notes payable, premium and discounts, and accrued interest, are not due and payable in the current period and therefore are not reported as liabilities in the funds. The balances at year end include: bonds and notes payable \$13,975,035, premium \$169,049 and accrued interest \$212,339	(14,356,423)
19 Net Position of Governmental Activities	\$ 12,609,360

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

BONHAM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

Data Control Codes	10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 6,713,827	\$ 2,036	\$ 1,374,692	\$ 8,090,555
5800 State Program Revenues	9,020,399	-	221,893	9,242,292
5900 Federal Program Revenues	15,421	-	2,473,137	2,488,558
5020 Total Revenues	15,749,647	2,036	4,069,722	19,821,405
EXPENDITURES:				
Current:				
0011 Instruction	7,891,686	(18,918)	1,551,029	9,423,797
0012 Instructional Resources and Media Services	121,546	56,797	11,683	190,026
0013 Curriculum and Instructional Staff Development	61,637	-	51,166	112,803
0021 Instructional Leadership	190,297	-	47,113	237,410
0023 School Leadership	1,077,228	28,424	17,438	1,123,090
0031 Guidance, Counseling and Evaluation Services	323,103	8,387	816	332,306
0033 Health Services	63,552	-	52,771	116,323
0034 Student (Pupil) Transportation	579,471	-	-	579,471
0035 Food Services	-	-	1,371,182	1,371,182
0036 Extracurricular Activities	716,300	-	104,225	820,525
0041 General Administration	819,696	-	-	819,696
0051 Facilities Maintenance and Operations	1,932,112	-	26,730	1,958,842
0052 Security and Monitoring Services	128,086	-	-	128,086
0053 Data Processing Services	427,254	-	12,776	440,030
Debt Service:				
0071 Principal on Long Term Debt	161,042	-	505,000	666,042
0072 Interest on Long Term Debt	48,160	-	320,388	368,548
0073 Bond Issuance Cost and Fees	35,000	-	851	35,851
Capital Outlay:				
0081 Facilities Acquisition and Construction	1,519,118	2,701,215	-	4,220,333
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	272,640	-	-	272,640
0099 Other Intergovernmental Charges	252,685	-	-	252,685
6030 Total Expenditures	16,620,613	2,775,905	4,073,168	23,469,686
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(870,966)	(2,773,869)	(3,446)	(3,648,281)
OTHER FINANCING SOURCES (USES):				
7914 Non-Current Loans	3,098,900	-	-	3,098,900
7915 Transfers In	55,821	653,101	-	708,922
8911 Transfers Out (Use)	(653,101)	-	-	(653,101)
7080 Total Other Financing Sources (Uses)	2,501,620	653,101	-	3,154,721
1200 Net Change in Fund Balances	1,630,654	(2,120,768)	(3,446)	(493,560)
0100 Fund Balance - July 1 (Beginning)	4,484,323	2,120,768	1,360,248	7,965,339
1300 Prior Period Adjustment	-	-	(9,801)	(9,801)
3000 Fund Balance - June 30 (Ending)	\$ 6,114,977	\$ -	\$ 1,347,001	\$ 7,461,978

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

BONHAM INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

Total Net Change in Fund Balances - Governmental Funds	\$ (493,560)
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays \$4,528,440 exceed depreciation expense \$(725,483) in the period.	3,802,957
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount includes proceeds of \$(3,098,900), principal payments of \$666,042, and amortization of premium of \$24,287.	(2,408,571)
Because some property taxes will not be collected for several months after the district's fiscal year ends, they are not considered "available" revenues in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year.	(55,297)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This amount represents the (increase) decrease in accrued interest from beginning of the period to the end of the period.	(74,388)
An internal service fund is used by the district's management to charge the costs of workers' compensation claims to the individual funds. The net revenue of the internal service fund is reported with governmental activities.	(53,815)
Change in Net Position of Governmental Activities	\$ 717,326

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

BONHAM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2014

	Governmental Activities -
	Internal Service Fund
<hr/>	
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 991
Total Assets	991
	<hr/>
LIABILITIES	
Current Liabilities:	
Accounts Payable	51,453
Total Liabilities	51,453
	<hr/>
NET POSITION	
Unrestricted Net Position	(50,462)
Total Net Position	\$ (50,462)
	<hr/> <hr/>

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

BONHAM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 47
Total Operating Revenues	47
OPERATING EXPENSES:	
Other Operating Costs	(1,959)
Total Operating Expenses	(1,959)
Income Before Transfers	2,006
Transfers In	(55,821)
Change in Net Position	(53,815)
Total Net Position - July 1 (Beginning)	3,353
Total Net Position - June 30 (Ending)	\$ (50,462)

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

BONHAM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 2,006
Cash Payments for Insurance Claims	(8,262)
Net Cash Used for Operating Activities	(6,256)
<u>Cash Flows from Non-Capital Financing Activities:</u>	
Operating Transfer In	1,600
Net Decrease in Cash and Cash Equivalents	(4,656)
Cash and Cash Equivalents at Beginning of Year	5,647
Cash and Cash Equivalents at End of Year	\$ 991
<u>Reconciliation of Operating Income to Net Cash</u>	
Used for Operating Activities:	
Operating Income:	\$ 2,006
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Accounts Payable	(8,262)
Net Cash Used for Operating Activities	\$ (6,256)

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

BONHAM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2014

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 38,802	\$ 51,305
Total Assets	<u>38,802</u>	<u>51,305</u>
LIABILITIES		
Due to Student Groups	-	\$ 51,305
Total Liabilities	<u>-</u>	<u>51,305</u>
NET POSITION		
Unrestricted Net Position	<u>38,802</u>	
Total Net Position	<u>\$ 38,802</u>	

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

BONHAM INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2014

	Private Purpose Trust Funds
<hr/>	
ADDITIONS:	
Local and Intermediate Sources	\$ 2,379
Total Additions	<u>2,379</u>
Change in Net Position	2,379
 Total Net Position - July 1 (Beginning)	 <u>36,423</u>
 Total Net Position - June 30 (Ending)	 <u><u>\$ 38,802</u></u>

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

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Bonham 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 Bonham 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.

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 from 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 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 from on the government-wide Statement of Activities.

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 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 funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from non-operating 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 non-operating. 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 non-operating.

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 deferred revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

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

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

D. FUND ACCOUNTING

The District reports the following major governmental funds:

1. **The General Fund** – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Capital Projects Fund** – The capital projects fund accounts for the acquisition and construction of the District's major capital facilities.

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

Governmental Funds:

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

Proprietary Funds:

2. **Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District's Internal Service Fund is the Worker's Compensation Fund.

Fiduciary Funds:

3. **Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the Student Activity Fund.
4. **Private Purpose Trust Funds** – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Funds are the William B. Smith Trust Fund and the Jason Owen Trust Fund.

E. ENCUMBRANCE ACCOUNTING

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment of Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only a commitment to expend resources. Appropriations lapse at June 30 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget.

There were no outstanding encumbrances at June 30, 2014 that were subsequently provided for in the 2014-2015 budget for the General Fund.

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

F. OTHER ACCOUNTING POLICIES

1. 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. The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.
3. 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, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related 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. It is the District's policy to permit some employees to accumulate earned but unused sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. Vacation leave does not accumulate for any employees and the District does not offer a vacation buyback plan. Vacation must be taken in the year earned or the employee forfeits any right to compensation. If an employee is terminated involuntarily from employment with the District, the employee shall receive the number of unused vacation leave days for the current year at his or her current rate of pay. No significant liabilities related to unpaid accumulated vacation leave existed at June 30, 2014.
5. Capital assets, which include land, buildings, furniture and equipment are reported in the governmental 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 two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

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	50
Building Improvements	50
Infrastructure	30
Vehicles	2-15
Office Equipment	2-15
Computer Equipment	2-15

6. Since Internal Service Funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the District as a whole.
7. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used. As of June 30, 2014, fund balances of the governmental funds are classified as follows:

Non-spendable – Amounts that cannot be spent either because they are in non-spendable form or because they are legally or contractually required to be maintained intact.

Restricted – Amounts that can be spent only for specific purposes because of constitutional provisions, charter requirements or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – Amounts that can be used only for specific purposes determined by a formal action of the District Board of Trustees. The District Board of Trustees is the highest level of decision making authority for the District. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the District Board of Trustees.

Assigned – Amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the District Board of Trustees may assign amounts for specific purposes.

Unassigned – All other spendable amounts.

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the District Board of Trustees has provided otherwise in its commitment or assignment actions.

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

By its nature as a local government unit, the District is subject to various federal, state, and local laws and contractual regulations.

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" on a basis consistent with Generally Accepted Accounting Principles 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 in Exhibit G-1 and the other two reports are in Exhibit J-4 and J-5.

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

1. Prior to June 19, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to July 1, the budget is legally adopted 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.

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

	June 30, 2014 <u>Fund Balance</u>
Appropriated Budget Funds – Food Service Special Revenue Funds	<u>\$ 341,352</u>

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the year ended June 30, 2014, the District's expenditures exceeded appropriation at the legal level of control in the General Fund as follows:

<u>Object Category</u>	<u>Expenditures Exceeding Appropriations</u>
Instruction	\$ 130,478
Instructional Resources and Media Services	7,808
Instructional Leadership	56,740
School Leadership	2,310
Security and Monitoring Services	648
Data Processing Services	10,759
Transfers Out	653,101

C. DEFICIT FUND NET POSITION

The Internal Service Fund had a deficit fund net position of \$50,462 as of June 30, 2014. The fund has a liability for Worker's Compensation claims. As claims are presented for payment, the District will transfer funds from the General Fund to cover.

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

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

At June 30, 2014, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$5,851,834 and the bank balance was \$4,687,860.

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

- a. Depository: Fannin Bank
- b. The total market value of securities pledged and FDIC coverage as of the date of the highest combined balance on deposit was \$4,682,081.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$5,287,892 and occurred during the month of November 2013.

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

The carrying value of investments at June 30, 2014 was \$1,602,112 (Texas Local Government Investment Pool—Texpool). Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

Texpool is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Texas Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company, which is authorized to operate Texpool. In addition, the Texpool Advisory Board advises on Texpool's Investment Policy. This Board is composed equally of participants in Texpool and other persons who do not have a business relationship with Texpool who are qualified to advise Texpool.

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. As of June 30, 2014, Texpool's investments credit quality rating was AAAm (Standard & Poor's).

Custodial Credit Risk—Deposits: This is the risk that in the event of bank failure, the District's deposits may not be returned to it. As of November 30, 2013 (date of the highest combined balance), the District had deposits of \$605,811 that was exposed to custodial credit risk because it was uninsured and uncollateralized. As of June 30, the District was not exposed to custodial credit risk since its deposits were covered by depository insurance or by pledged collateral held by the District's agent bank in the District's bank.

Custodial Credit Risk—Investments: This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Investments in external investment pools are considered unclassified as to credit risk because they are not evidenced by securities that exist in physical or book entry form.

B. PROPERTY TAXES

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

C. DELINQUENT TAXES RECEIVABLE

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

D. INTERFUND BALANCES AND TRANSFERS

Interfund balances at June 30, 2014, consisted of the following amounts:

Due to General Fund From:

Capital Projects Fund	\$ 965,710
Total Due to General Fund	<u>\$ 965,710</u>

The balance due to the General Fund represents construction expenses paid from the General Fund to be reimbursed by the Capital Projects Fund. This balance is expected to be repaid within one year.

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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Interfund transfers for the year ended June 30, 2014, consisted of the following individual amounts:

Transfers to General Fund From:

Internal Service Fund	<u>\$ 55,821</u>
Total Transferred to General Fund	<u>\$ 55,821</u>

Transfers to Capital Projects From:

General Fund	<u>\$ 653,101</u>
Total Transferred to Capital Projects Fund	<u>\$ 653,101</u>

The transfer out of the Non-Major Governmental Funds to the General Fund is to eliminate interfund balances. The transfer out of the General Fund to the Capital Projects Fund is to pay for excess Capital Project Fund expenditures.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at June 30, 2014, were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Total Receivables</u>
Governmental Activities:			
General Fund	\$ 478,868	\$ 2,606,442	\$ 3,085,310
Non-Major Governmental Funds	52,523	481,584	534,107
Internal Service Funds	<u>-</u>	<u>-</u>	<u>-</u>
Total - Governmental Activities	<u>\$ 531,391</u>	<u>\$ 3,088,026</u>	<u>\$ 3,619,417</u>
Amounts not Expected to be Collected During the Subsequent Year	<u>\$ 331,216</u>	<u>\$ -</u>	<u>\$ 331,216</u>

Payables at June 30, 2014, were as follows:

	<u>Accounts</u>	<u>Salaries and Benefits</u>	<u>Total Payables</u>
Governmental Activities:			
General Fund	\$ 63,223	\$ 1,104,404	\$ 1,167,627
Capital Projects Fund	7,554	-	7,554
Non-Major Gov. Funds	16,454	192,842	209,296
Internal Service Funds	<u>51,453</u>	<u>-</u>	<u>51,453</u>
Total - Gov. Activities	<u>\$ 138,684</u>	<u>\$ 1,297,246</u>	<u>\$ 1,435,930</u>

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the year ended June 30, 2014, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Capital Assets being Depreciated:				
Buildings and Improvements	\$ 19,057,739	\$ 7,394,913	\$ -	\$ 26,452,652
Furniture and Equipment	777,760	436,561	-	1,214,321
Vehicles	1,997,804	10,627	(64,538)	1,943,893
Totals at Historic Cost	<u>21,833,303</u>	<u>7,842,101</u>	<u>(64,538)</u>	<u>29,610,866</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(10,787,218)	(515,873)	-	(11,303,091)
Furniture and Equipment	(316,728)	(101,303)	-	(418,031)
Vehicles	(957,601)	(108,307)	64,538	(1,001,370)
Total Accumulated Depreciation	<u>(12,061,547)</u>	<u>(725,483)</u>	<u>64,538</u>	<u>(12,722,492)</u>
Total Capital Assets being Depreciated, net	<u>9,771,756</u>	<u>7,116,618</u>	<u>-</u>	<u>16,888,374</u>
Capital Assets not being Depreciated:				
Construction in Progress	4,826,774	4,186,399	(7,500,060)	1,513,113
Land	<u>621,389</u>	<u>-</u>	<u>-</u>	<u>621,389</u>
Total Capital Assets not being Depreciated, net	<u>5,448,163</u>	<u>4,186,399</u>	<u>(7,500,060)</u>	<u>2,134,502</u>
Governmental Activities Capital Assets, net:	<u>\$ 15,219,919</u>	<u>\$ 11,303,017</u>	<u>\$(7,500,060)</u>	<u>\$ 19,022,876</u>

Depreciation expense was charged to governmental function as follows:

Instruction	\$ 23,171
Curriculum and Staff Development	6,199
Student (Pupil) Transportation	76,410
Food Services	21,215
Extracurricular Activities	14,259
Facilities Maintenance and Operations	550,633
Security and Monitory Services	4,025
Data Processing Services	<u>29,571</u>
Total Depreciation Expense	<u>\$ 725,483</u>

G. LONG-TERM OBLIGATIONS

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

The District issued Bonham Independent School District Maintenance Tax Notes, Series 2003, in the amount of \$1,931,500 dated March 28, 2003, as authorized by Texas Education Code, Section 45.103. The notes require quarterly principal and interest payments and bear interest at 5.125%.

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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On May 17, 2007, the District issued Bonham Independent School District Unlimited Tax Refunding Bonds, Series 2007 in the amount of \$5,519,999. The bonds were issued as Current Interest Bonds and Capital Appreciation Bonds in the amount of \$5,350,000 and \$169,999 respectively. The Current Interest Bonds are due serially in varying amounts from \$405,000 to \$515,000 through August 2020 and have a stated interest rate of 4.00%. The Capital Appreciation Bonds matured August 1, 2008.

On July 5, 2012, the District issued Bonham Independent School District Unlimited Tax School Building Bonds, Series 2012 in the amount of \$6,955,000. The bonds are due in annual installments of \$170,000 to \$340,000 through 2043, with interest at 2% to 4%.

On October 24, 2013, the District issued Bonham Independent School District Time Warrants, Series 2013 in the amount of \$990,100. The Time Warrants are due in annual installments of \$88,219 through 2029, and bears interest at 3.872%.

On October 24, 2013, the District issued Bonham Independent School District Maintenance Tax Notes, Series 2013 in the amount of \$1,000,000. The notes are due in annual installments of \$89,101 through 2029, and bears interest at 3.872%.

On October 24, 2013, the District issued Bonham Independent School District Public Property Finance Act Contract No. 6439 in the amount of \$1,108,800. The contract is due in annual installments of \$98,910 through 2029, and bears interest at 3.872%.

Long-term activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds, Warrants and Notes Payable:					
Maintenance Tax Notes, Series 2003	\$ 997,177	\$ -	\$(161,042)	\$ 836,135	\$ 173,790
Unlimited Tax Refunding Bonds, Series 2007	3,590,000	-	(390,000)	3,200,000	405,000
Unlimited Tax School Building Bonds, Series 2012	6,955,000	-	(115,000)	6,840,000	170,000
Time Warrants, Series 2013	-	990,100	-	990,100	50,308
Maintenance Tax Notes, Series 2013	-	1,000,000	-	1,000,000	50,811
Public Property Finance Act Contract #6439	-	1,108,800	-	1,108,800	56,340
Premium on Bonds	<u>193,336</u>	<u>-</u>	<u>(24,287)</u>	<u>169,049</u>	<u>-</u>
Total Bonds, Warrants and Notes Payable	<u>11,735,513</u>	<u>3,098,900</u>	<u>(690,329)</u>	<u>14,144,084</u>	<u>906,249</u>
Total Governmental Activities Long-term Liabilities	<u>\$ 11,735,513</u>	<u>\$ 3,098,900</u>	<u>\$(690,329)</u>	<u>\$ 14,144,084</u>	<u>\$ 906,249</u>

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

Debt service requirements for bonds are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2015	\$ 575,000	\$ 301,388	\$ 876,388
2016	595,000	281,438	876,438
2017	615,000	260,738	875,738
2018	635,000	239,288	874,288
2019	660,000	217,038	877,038
2020-2024	1,985,000	819,938	2,804,938
2025-2029	1,090,000	675,497	1,765,497
2030-2034	1,210,000	548,009	1,758,009
2035-2039	1,385,000	364,425	1,749,425
2040-2043	<u>1,290,000</u>	<u>105,597</u>	<u>1,395,597</u>
Total	<u>\$ 10,040,000</u>	<u>\$ 3,813,356</u>	<u>\$ 13,853,356</u>

Debt service requirements for notes are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2015	\$ 331,249	\$ 158,341	\$ 489,590
2016	349,556	144,413	493,969
2017	370,224	128,258	498,482
2018	392,024	111,104	503,128
2019	238,101	95,146	333,247
2020-2024	1,020,232	360,916	1,381,148
2025-2029	<u>1,233,649</u>	<u>147,500</u>	<u>1,381,149</u>
Total	<u>\$ 3,935,035</u>	<u>\$ 1,145,678</u>	<u>\$ 5,080,713</u>

Total debt service requirements are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2015	\$ 906,249	\$ 459,729	\$ 1,365,978
2016	944,556	425,851	1,370,407
2017	985,224	388,996	1,374,220
2018	1,027,024	350,392	1,377,416
2019	898,101	312,184	1,210,285
2020-2024	3,005,232	1,180,854	4,186,086
2025-2029	2,323,649	822,997	3,146,646
2030-2034	1,210,000	548,009	1,758,009
2035-2039	1,385,000	364,425	1,749,425
2040-2044	<u>1,290,000</u>	<u>105,597</u>	<u>1,395,597</u>
Total	<u>\$ 13,975,035</u>	<u>\$ 4,959,034</u>	<u>\$ 18,934,069</u>

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

H. DEFINED BENEFIT PENSION PLAN

Plan Description. Bonham 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 downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701.

Funding Policy. Contribution requirements are not actuarially determined but are established and amended pursuant to the following state funding policy: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10% of the aggregate annual compensation of all members of the system during the fiscal year; (2) state statute prohibits benefit improvements, if as a result of a (the) particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal years 2014, 2013 and 2012 and a state contribution rate of 6.8% for fiscal year 2014, 6.4% for fiscal year 2013 and 6.0% for fiscal year 2012. In certain instances the reporting district is required to make all or a portion of the state's contribution. State contributions to TRS made on behalf of the District's employees for the years ending June 30, 2014, 2013 and 2012 were \$399,738, \$519,163 and \$613,129, respectively. The District paid additional state contributions for the years ending June 30, 2014, 2013 and 2012 in the amount of \$256,929, \$196,306 and \$189,435, respectively, on portion of the employees' salaries that exceeded the statutory minimum.

I. RETIREE HEALTH PLAN

1. TRS-Care

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

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

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

The State of Texas contribution rates for 2014, 2013 and 2012 were 1.0%, 0.5% and 1.0% respectively, The active member contribution rates for 2014, 2013 and 2012 was .65%. The school district's contribution rates for 2014, 2013 and 2012 was .55%.

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. For the fiscal years ended June 30, 2014, 2013 and 2012, the subsidy payments received by TRS-Care on behalf of the District were \$29,401, \$38,357, and \$23,826.

J. HEALTH CARE COVERAGE

During the year ended June 30, 2014, employees of the District were covered by a health insurance plan (the plan). The District paid premiums of \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

K. UNEARNED REVENUES

Unearned revenues at year end represents revenues received by the District but not yet earned and are not available for use by the District to liquidate current year liabilities. A summary of unearned revenues by fund follows:

	Special Revenue <u>Fund</u>
Federal Revenue	\$ <u>8,906</u>
Total Deferred Revenue	\$ <u><u>8,906</u></u>

L. DEFERRED INFLOWS OF RESOURCES

Deferred inflows of resources year end represents assets that are not available for use by the District to liquidate current year liabilities. A summary of deferred inflows of resources by fund follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Net Tax Revenue	\$ <u>478,868</u>	\$ <u>52,523</u>	\$ <u><u>531,391</u></u>

Property tax revenues are earned but are not available as of year-end; therefore, they are recognized as revenues in the government-wide financial statements and as unavailable in the fund level financial statements.

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

M. 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 June 30, 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 Other Governments.

<u>Fund</u>	<u>State Entitlements</u>	<u>Property Taxes</u>	<u>Federal Grants</u>	<u>Shared Service Arrangement</u>	<u>Total</u>
General	\$ 2,445,370	\$ 43,231	\$ -	\$ 117,841	\$ 2,606,442
Non-Major Governmental	-	5,283	476,301	-	481,584
Total	<u>\$ 2,445,370</u>	<u>\$ 48,514</u>	<u>\$ 476,301</u>	<u>\$ 117,841</u>	<u>\$ 3,088,026</u>

N. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	<u>General Fund</u>	<u>Capital Projects Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
Property Taxes	\$ 5,871,006	\$ -	\$ 819,161	\$ 6,690,167
Penalties, Interest and Other Tax-related Income	97,123	-	11,227	108,350
Investment Income	7,663	2,036	150	9,849
Food Sales	-	-	245,672	245,672
Campus Activity	-	-	104,339	104,339
Co-Curricular Student Activities	37,037	-	-	37,037
Indirect Cost	-	-	194,143	194,143
Rent	660	-	-	660
Shared Service Arrangement	545,316	-	-	545,316
Other	<u>155,022</u>	<u>-</u>	<u>-</u>	<u>155,022</u>
Total	<u>\$ 6,713,827</u>	<u>\$ 2,036</u>	<u>\$ 1,374,692</u>	<u>\$ 8,090,555</u>

O. COMMITMENTS AND CONTINGENCIES

Grants

The District participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the amount collectable of any related receivable at June 30, 2014 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 financial statements for such contingencies.

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

Litigation

The District is subject to a pending lawsuit. Although the outcome of the lawsuit is not presently determinable, it is the opinion of the District's counsel that resolution of these matters will not have a material adverse effect on the financial condition of the government.

P. JOINT VENTURE – SHARED SERVICE ARRANGEMENTS

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

Q. RISK MANAGEMENT

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

R. WORKERS' COMPENSATION POOL

During the year ended June 30, 2014, Bonham ISD met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members' injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2013, the Fund carries a discounted reserve of \$57,050,754 for future development on reported claims and claims that have been incurred but not yet reported. For the year-ended June 30, 2014, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2013 are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

Auto, Liability, and/or Property Programs

During the year ended June 30, 2014, Bonham ISD participated in the following TASB Risk Management Fund (the Fund) programs:

Auto Liability
Auto Physical Damage
General Liability
Legal Liability
Property

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

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability and Property programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended June 30, 2014, the Fund anticipates that Bonham ISD has no additional liability beyond the contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2013, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

Unemployment Compensation Pool

During the year ended June 30, 2014, Bonham ISD provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore there is no need for specific or aggregate stop loss coverage for the Unemployment Compensation pool. For the year ended June 30, 2014, the Fund anticipates that Bonham ISD has no additional liability beyond the contractual obligation for payment of contribution.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2013, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance of Austin.

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2014

S. PRIOR PERIOD ADJUSTMENT

A prior period adjustment was necessary in the non-major governmental funds for \$9,801 due to reclassification of prior year activity funds.

T. SUBSEQUENT EVENTS

Management has evaluated subsequent events through October 13, 2014 the date on which the financial statements were available to be issued. Beginning with fiscal year 2015, the District will be the fiscal agent for the Special Education Shared Service Arrangement.

Subsequent to June 30, 2014, the District paid in full (\$836,135) the Maintenance Tax Notes, Series 2003 funded by fund balance.

Q. GASB 68 ACCOUNTING AND FINANCIAL REPORTING FOR PENSION (AN AMENDMENT TO GASB STATEMENT NO. 27)

The provisions of Statement 68 are effective for financial statements for fiscal years beginning after June 15, 2014. Earlier application is encouraged. The provision will require cost-sharing employers (which the District is) to recognize in the government-wide financial statements a liability for its proportionate share of the net pension liability. A cost-sharing employer is required to recognize pension expense and report deferred outflows of resources and deferred inflows of resources related to pensions for its proportionate share of collective pension expense and collective deferred outflows of resources and deferred inflows of resources related to pensions. The effect this new pronouncement will have on the government-wide financial statements of the District has not been determined. The District does not plan to implement early.

REQUIRED SUPPLEMENTARY INFORMATION

BONHAM INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2014

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 6,070,500	\$ 6,842,645	\$ 6,713,827	\$ (128,818)
5800	State Program Revenues	8,232,380	8,232,380	9,020,399	788,019
5900	Federal Program Revenues	5,000	17,655	15,421	(2,234)
5020	Total Revenues	14,307,880	15,092,680	15,749,647	656,967
EXPENDITURES:					
Current:					
0011	Instruction	7,381,118	7,761,208	7,891,686	(130,478)
0012	Instructional Resources and Media Services	123,738	113,738	121,546	(7,808)
0013	Curriculum and Instructional Staff Development	112,404	69,247	61,637	7,610
0021	Instructional Leadership	137,057	133,557	190,297	(56,740)
0023	School Leadership	1,080,218	1,074,918	1,077,228	(2,310)
0031	Guidance, Counseling and Evaluation Services	375,611	325,611	323,103	2,508
0033	Health Services	88,403	68,403	63,552	4,851
0034	Student (Pupil) Transportation	345,479	609,479	579,471	30,008
0036	Extracurricular Activities	796,967	759,886	716,300	43,586
0041	General Administration	727,361	835,361	819,696	15,665
0051	Facilities Maintenance and Operations	1,747,295	2,099,060	1,932,112	166,948
0052	Security and Monitoring Services	100,257	127,438	128,086	(648)
0053	Data Processing Services	137,859	416,495	427,254	(10,759)
Debt Service:					
0071	Principal on Long Term Debt	161,042	161,042	161,042	-
0072	Interest on Long Term Debt	48,066	48,066	48,160	(94)
0073	Bond Issuance Cost and Fees	-	35,000	35,000	-
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	3,063,900	1,519,118	1,544,782
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of	270,000	277,000	272,640	4,360
0099	Other Intergovernmental Charges	220,000	265,000	252,685	12,315
6030	Total Expenditures	13,852,875	18,244,409	16,620,613	1,623,796
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	455,005	(3,151,729)	(870,966)	2,280,763
OTHER FINANCING SOURCES (USES):					
7914	Non-Current Loans	-	3,098,900	3,098,900	-
7915	Transfers In	-	-	55,821	55,821
8911	Transfers Out (Use)	-	-	(653,101)	(653,101)
7080	Total Other Financing Sources (Uses)	-	3,098,900	2,501,620	(597,280)
1200	Net Change in Fund Balances	455,005	(52,829)	1,630,654	1,683,483
0100	Fund Balance - July 1 (Beginning)	4,484,323	4,484,323	4,484,323	-
3000	Fund Balance - June 30 (Ending)	\$ 4,939,328	\$ 4,431,494	\$ 6,114,977	\$ 1,683,483

REQUIRED TEA SCHEDULES

BONHAM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED JUNE 30, 2014

Last 10 Years		(1)	(2)	(3)
		Tax Rates		Assessed/Appraised Value for School Tax Purposes
		Maintenance	Debt Service	
2005	and prior years	Various	Various	\$ Various
2006		1.500000	0.080000	412,987,930
2007		1.370050	0.080000	442,591,281
2008		1.040050	0.080000	446,818,464
2009		1.040050	0.075000	513,441,535
2010		1.040050	0.075000	538,880,230
2011		1.040050	0.075000	541,987,286
2012		1.040050	0.075000	540,332,182
2013		1.040050	0.155000	543,449,228
2014	(School year under audit)	1.040000	0.145770	562,077,300
1000	TOTALS			

(10) Beginning Balance 7/1/2013	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 6/30/2014
\$ 62,698	\$ -	\$ 4,132	\$ 355	\$ (2,612)	\$ 55,599
15,340	-	1,279	68	(846)	13,147
21,381	-	3,774	220	(1,502)	15,885
26,209	-	4,296	330	(1,541)	20,042
40,478	-	4,631	334	(1,911)	33,602
43,488	-	6,672	481	(1,537)	34,798
75,594	-	22,767	1,642	(1,406)	49,779
102,526	-	32,938	2,375	(2,843)	64,370
280,970	-	144,127	21,479	(11,045)	104,319
-	6,664,944	5,614,170	787,856	(45,161)	217,757
<u>\$ 668,684</u>	<u>\$ 6,664,944</u>	<u>\$ 5,838,786</u>	<u>\$ 815,140</u>	<u>\$ (70,404)</u>	<u>\$ 609,298</u>

BONHAM INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
FOR THE YEAR ENDED JUNE 30, 2014

EXHIBIT J-3

UNAUDITED

1	Total General Fund Balance as of 6/30/14 (Exhibit C-1 object 3000 for the General Fund Only)		\$ 6,114,977
2	Total Non-Spendable Fund Balance (from Exhibit C-1 - for the General Fund Only)	\$ -	
3	Total Restricted Fund Balance (from Exhibit C-1 - for the General Fund Only)	1,544,782	
4	Total Committed Fund Balance (from Exhibit C-1 - for the General Fund Only)	836,135	
5	Total Assigned Fund Balance (from Exhibit C-1 - for the General Fund Only)	-	
6	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)	-	
7	Estimate of two month's average cash disbursements during the fiscal year.	2,658,470	
8	Estimate of delayed payments from state sources (58xx).	-	
9	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount.	-	
10	Estimate of delayed payments from federal sources (59xx)	2,445,370	
11	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	-	
12	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9+10+11)		<u>7,484,757</u>
13	Excess (Deficit) Unassigned Fund Balance (Line 1 minus Line 12)		<u><u>\$ (1,369,780)</u></u>

BONHAM INDEPENDENT SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - CHILD NUTRITION FUND
 FOR THE YEAR ENDED JUNE 30, 2014

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 284,000	\$ 283,952	\$ 245,672	\$ (38,280)
5800	State Program Revenues	29,614	29,614	30,697	1,083
5900	Federal Program Revenues	1,030,685	1,030,685	1,006,058	(24,627)
5020	Total Revenues	1,344,299	1,344,251	1,282,427	(61,824)
EXPENDITURES:					
0035	Food Services	1,344,299	1,344,347	1,371,182	(26,835)
6030	Total Expenditures	1,344,299	1,344,347	1,371,182	(26,835)
1200	Net Change in Fund Balances	-	(96)	(88,755)	(88,659)
0100	Fund Balance - July 1 (Beginning)	430,107	430,107	430,107	-
3000	Fund Balance - June 30 (Ending)	\$ 430,107	\$ 430,011	\$ 341,352	\$ (88,659)

BONHAM INDEPENDENT SCHOOL DISTRICT
 BUDGETARY COMPARISON SCHEDULE - DEBT SERVICE FUND
 FOR THE YEAR ENDED JUNE 30, 2014

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 829,000	\$ 829,000	\$ 830,537	\$ 1,537
5800	State Program Revenues	-	-	93,594	93,594
5020	Total Revenues	829,000	829,000	924,131	95,131
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	505,000	505,000	505,000	-
0072	Interest on Long Term Debt	320,138	320,138	320,388	(250)
0073	Bond Issuance Cost and Fees	3,862	3,862	851	3,011
6030	Total Expenditures	829,000	829,000	826,239	2,761
1200	Net Change in Fund Balances	-	-	97,892	97,892
0100	Fund Balance - July 1 (Beginning)	837,108	837,108	837,108	-
3000	Fund Balance - June 30 (Ending)	\$ 837,108	\$ 837,108	\$ 935,000	\$ 97,892

OVERALL COMPLIANCE, INTERNAL CONTROLS
AND FEDERAL AWARDS SECTION

McClanahan and Holmes, LLP
CERTIFIED PUBLIC ACCOUNTANTS

R. E. BOSTWICK, CPA
STEVEN W. MOHUNDRO, CPA
GEORGE H. STRUVE, CPA
ANDREW B. REICH, CPA
RUSSELL P. WOOD, CPA
DEBRA J. WILDER, CPA

228 SIXTH STREET S.E.
PARIS, TEXAS 75460
903-784-4316
FAX 903-784-4310

304 WEST CHESTNUT
DENISON, TEXAS 75020
903-465-6070
FAX 903-465-6093

1400 WEST RUSSELL
BONHAM, TEXAS 75418
903-583-5574
FAX 903-583-9453

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

Independent Auditor's Report

Board of Trustees
Bonham Independent School District
1005 Chestnut Street
Bonham, Texas 75418

Members of the Board:

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 Bonham Independent School District (the District) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated October 13, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Bonham 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 the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

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

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

Compliance and Other Matters

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

Purpose of this Report

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

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

McClanahan and Holmes, LLP

Certified Public Accountants

October 13, 2014

McClanahan and Holmes, LLP
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PARIS, TEXAS 75460
903-784-4316
FAX 903-784-4310

304 WEST CHESTNUT
DENISON, TEXAS 75020
903-465-6070
FAX 903-465-6093

1400 WEST RUSSELL
BONHAM, TEXAS 75418
903-583-5574
FAX 903-583-9453

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

Independent Auditor's Report

Board of Trustees
Bonham Independent School District
1005 Chestnut Street
Bonham, Texas 75418

Members of the Board:

Report on Compliance for Each Major Federal Program

We have audited Bonham 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 Bonham Independent School District's major federal programs for the year ended June 30, 2014. Bonham 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 Bonham 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 Bonham 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 Bonham Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Bonham 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 June 30, 2014.

Report on Internal Control over Compliance

The administration of Bonham 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 Bonham 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 Bonham 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.

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

McClanahan and Holmes, LLP

Certified Public Accountants

October 13, 2014

BONHAM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2014

I. Summary of the Auditor's Results:

a. Financial Statements

Type of auditor's report issued: Unmodified

Internal Control over financial reporting:

Material weakness(es) identified? Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

b. Federal Awards

Internal Control over major programs:

Material weakness(es) identified? Yes X No

Significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Type of auditor's report issued on compliance for major federal award programs: Unmodified

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553, 10.555	National School Breakfast and Lunch Program
84.010A	ESEA, Title I, Part A – Improving Basic Programs
84.027, 84.173	IDEA – Part B – Formula and Preschool

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

Auditee qualified as low-risk auditee? Yes X No

II. Financial Statement Findings

None

III. Federal Award Findings and Questioned Costs

None

BONHAM INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2014

FINDING / RECOMMENDATION

Finding 2013-1 Bank Reconciliations

Condition: The District failed to perform monthly bank reconciliations in a timely manner.

Recommendation: The District should perform bank reconciliations on a monthly basis. Any differences should be investigated and corrected in a timely manner.

Current Status: The District has implemented the recommended procedures. No similar findings were noted in the 2014 audit.

Finding 2013-2 Financial Accounting and Reporting

Condition: The District does not prepare the financial statements nor control the period-end financial reporting process including controls over procedures used to analyze transactions compromising general ledger activity; controls over recording recurring and non-recurring adjustments to the financial statements; and, controls over the adequacy of note disclosures to the financial statements.

Recommendation: The District's management should maintain close oversight of the accounting and reporting process.

Current Status: The District made a personnel change. No similar findings were noted in the 2014 audit.

BONHAM INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2014

FINDING / RECOMMENDATION

Not Applicable

BONHAM INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	14610101074903	\$ 418,560
*IDEA - Part B, Formula	84.027	074-907	60,669
*IDEA - Part B, Preschool	84.173	074-907	56,503
Total Special Education Cluster (IDEA)			117,172
Career and Technical - Basic Grant	84.048	057-950	14,854
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	14696001074903	34,140
Title III, Part A - English Language Acquisition	84.365A	057-950	13,651
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	14694501074903	73,455
Total Passed Through State Department of Education			\$ 671,832
TOTAL DEPARTMENT OF EDUCATION			\$ 671,832
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through Texas Dept of Human Services</u>			
Medicaid Administrative Claiming Program - MAC	93.778	074-903	\$ 1,436
Total Passed Through Texas Dept of Human Services			\$ 1,436
<u>Passed Through State Department of Education</u>			
Head Start	93.600	06CH0004/40	\$ 776,570
Head Start	93.600	06CH7111/01	27,628
Total CFDA Number 93.600			804,198
Total Passed Through State Department of Education			\$ 804,198
TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES			\$ 805,634
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	074-903	\$ 314,099
*National School Lunch Program - Cash Assistance	10.555	074-903	610,363
Total Child Nutrition Cluster			924,462
Commodity Supplemental - Non-Cash Assistance	10.565	074-903	67,141
Total Passed Through the State Department of Agriculture			\$ 991,603
TOTAL DEPARTMENT OF AGRICULTURE			\$ 991,603
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,469,069

*Clustered Programs

BONHAM INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2014

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Bonham Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of *OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

SCHOOLS FIRST QUESTIONNAIRE

Bonham Independent School District

Fiscal Year 2014

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

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Bonham Independent School District

Fiscal Year 2014

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