

**HEMPSTEAD  
INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND  
COMPLIANCE REPORT**

**For The Year Ended August 31, 2013  
with Report of Independent Auditors**



# HEMPSTEAD INDEPENDENT SCHOOL DISTRICT

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**CERTIFICATE OF THE BOARD**

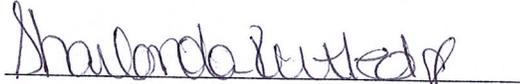
Hempstead Independent School District  
Name of School District

Waller  
County

237-902  
Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and ✓ **approved**/ \_\_\_\_\_ **disapproved** for the year ended August 31, 2013, at a meeting of the board of trustees of such school district on July 1, 2014.

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

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



## **FINANCIAL SECTION**



## REPORT OF INDEPENDENT AUDITORS

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

### 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 Hempstead Independent School District (the “District”) as of and for the year ended August 31, 2013, 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 included 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 the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and preform 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 included 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 government activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2013, and respective changes in the financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matters**

As discussed in Note 15 to the financial statements, the beginning net position of the District's governmental activities has been restated by approximately \$1.4 million, to remove capital assets no longer in use at the beginning of the 2013 fiscal year.

As discussed in Note 1 to the financial statements, the District adopted the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities* as of August 31, 2013.

Our opinion is not modified with respect to these matters.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 12 and Budgetary Comparison Schedule – General fund page 43 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. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying supplementary information such as the combining fund statements, the Texas Education Agency required schedules, and the schedule of expenditures of federal awards, as required by the Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, are presented for additional analysis and are not a required part of the basic financial statements.

The other supplementary information described above 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated July 1, 2014 on our consideration of the 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 the testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas  
July 1, 2014

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## **HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Our discussion and analysis of Hempstead Independent School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2013. Please read it in conjunction with the District's financial statements, which begin on page 13.

#### **Financial Highlights**

- The District's total combined net position at year end was \$3,293,410.
- For the year, the District's general fund reported a total fund balance of \$1,541,042, all of which was unassigned.
- At the end of the year, the District's governmental funds (the general fund plus all state and federal grant funds, the debt service fund, and the capital projects fund) reported combined ending fund balances of \$1,946,286.

#### **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.
- *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. This fund includes student activity funds.

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 and supports the information in the financial statements.

***HEMPSTEAD INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)***

**Government-wide financial 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 position 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 non-financial 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.

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 two 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.

*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 position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Financial Analysis of the District as a Whole**

The following analysis focuses on the net position and changes in net position of the District's governmental activities.

The District's net position was \$3,293,410 at year end. *Table I* focuses on the net position while *Table II* shows the revenues and expenses that changed the net position balance during the year. The District reported an increase of \$705,914 in net position from the prior year. An increase in total expenses combined with a decrease in total revenues, contributed to the decrease in combined net position.

**Table I**

	<b>Hempstead Independent School District's Net Position</b>		<b>\$ change</b>	<b>% change</b>
	<b>Governmental Activities</b>			
	<b>2013</b>	<b>2012*</b>		
<b>Assets</b>				
Cash and cash equivalents	\$ 2,794,550	\$ 2,409,170	\$ 385,380	16%
Other assets	934,932	1,057,260	(122,328)	-12%
Capital assets less accumulated depreciation	21,357,364	20,932,203	425,161	2%
<b>Total Assets</b>	<b>25,086,846</b>	<b>24,398,633</b>	<b>688,213</b>	<b>3%</b>
<b>Liabilities</b>				
Current liabilities	966,361	1,236,202	(269,841)	-22%
Long term liabilities	20,827,075	20,574,935	252,140	1%
<b>Total Liabilities</b>	<b>21,793,436</b>	<b>21,811,137</b>	<b>(17,701)</b>	<b>0%</b>
<b>Net Position</b>				
Net investment in capital assets	810,396	594,311	216,085	36%
Restricted	208,185	414,064	(205,879)	-50%
Unrestricted	2,274,829	1,579,121	695,708	44%
<b>Total Net Position</b>	<b>\$ 3,293,410</b>	<b>\$ 2,587,496</b>	<b>\$ 705,914</b>	<b>27%</b>

\*as restated

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Table II**

<b>Hempstead Independent School District's Changes in Net Position</b>				
	<b>Governmental Activities</b>			
	<b>2013</b>	<b>2012*</b>	<b>change \$</b>	<b>% change</b>
<b>Revenue:</b>				
<b>Program Revenues:</b>				
Charges for services	\$ 120,838	\$ 126,077	\$ (5,239)	-4%
Operating grants & contributions	2,709,895	2,852,429	(142,534)	-5%
<b>General Revenues:</b>				
Property taxes	6,059,450	5,865,160	194,290	3%
State Aid	7,272,411	6,411,339	861,072	13%
Investment earnings	9,627	9,743	(116)	-1%
Other revenue	163,282	406,117	(242,835)	-60%
<b>Total Revenues</b>	<b>16,335,503</b>	<b>15,670,865</b>	<b>664,638</b>	<b>4%</b>
<b>Expenses</b>				
Instruction	8,164,076	7,978,668	185,408	2%
Instructional Resources and Media Services	196,104	188,591	7,513	4%
Curriculum and Staff Development	173,006	191,954	(18,948)	-10%
Instructional Leadership	163,492	154,903	8,589	6%
School Leadership	774,763	794,697	(19,934)	-3%
Guidance, Counseling, and Evaluation Services	341,735	317,759	23,976	8%
Health Services	106,527	110,631	(4,104)	-4%
Student Transportation	530,766	560,988	(30,222)	-5%
Food Service	699,179	664,465	34,714	5%
Extracurricular Activities	775,133	765,864	9,269	1%
General Administration	794,096	544,249	249,847	46%
Plant, Maintenance and Operations	1,498,076	1,366,909	131,167	10%
Security and Monitoring Services	173,330	166,535	6,795	4%
Data Processing Services	119,657	141,186	(21,529)	-15%
Community Services	27,097	33,346	(6,249)	-19%
Debt service - interest on long-term debt	953,051	928,360	24,691	3%
Other intergovernment charges	139,501	110,174	29,327	27%
<b>Total Expenses</b>	<b>15,629,589</b>	<b>15,019,279</b>	<b>610,310</b>	<b>4%</b>
Increase (Decrease) in Net Position	705,914	651,586	54,328	8%
<b>Beginning Net Position (as restated)</b>	<b>2,587,496</b>	<b>1,935,910</b>		
<b>Ending Net Position</b>	<b>\$ 3,293,410</b>	<b>\$ 2,587,496</b>		

\* as restated

***HEMPSTEAD INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)***

**Governmental Activities**

Governmental activities increased the District's net position by \$705,914. Key elements of this increase are as follows:

Revenues are generated primarily from two sources. State Aid Formula Grant, operating grants and contributions totaling \$9,982,306 represent 61 percent of total revenues and property taxes of \$6,059,450 represents 37 percent of total revenues. The remaining is generated from charges from services, investment earnings and miscellaneous revenues.

The primary functional expense of the District is instruction or \$8,164,076, which represents 52.2% of total expenses; debt service expenses of \$953,051 which represents 6.1% of total expenses; plant, maintenance and operations of \$1,498,076 which represents 9.6%. The remaining individual function categories of expenses are each less than 6 percent of total expenses.

The District's maintenance and operations property tax rate increased from \$1.04 to \$1.17 and the District's debt service property tax rates decreased from \$0.34 to \$0.21. The District's tax assessed valuation increased by approximately 2% percent. This resulted in an increase of 3% or in property tax revenue over the prior year.

**Financial Analysis of the District's Funds**

The fund balance in the general fund decreased primarily due to an increase in expenditures in the functional area of instruction.

The debt service fund decreased due to debt service related expenditures exceeding property tax revenue.

**General Fund Budgetary Highlights**

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the national school lunch and breakfast program special revenue fund, and the debt service fund. The District budgets the capital projects fund for each project, which normally cover multiple years. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the year, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenditures. The general fund's actual revenues were exceeded by budgeted revenues by \$154,333 and the budgeted appropriations exceeded actual expenditures by \$4,679

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Capital Asset and Debt Administration**

**Capital Assets**

At year end the District had \$21,357,364 invested in a broad range of capital assets, including land, equipment, buildings and vehicles.

	Balance *			Balance
	August 31, 2012	Additions	(Retirements and Transfers)	August 31, 2013
Capital assets, not being depreciated:				
Land	\$ 122,752	\$	\$	\$ 122,752
<b>Total Capital assets, not being depreciated</b>	<b>122,752</b>			<b>122,752</b>
Capital assets, being depreciated:				
Buildings and improvements	26,767,870	738,758		27,506,628
Furniture and equipment	3,117,372	522,004		3,639,376
<b>Total Capital assets, being depreciated</b>	<b>29,885,242</b>	<b>1,260,762</b>		<b>31,146,004</b>
Less accumulated depreciation for:				
Buildings and improvements	(6,869,985)	(662,287)		(7,532,272)
Furniture and Equipment	(2,205,806)	(173,314)		(2,379,120)
<b>Total Accumulated depreciation</b>	<b>(9,075,791)</b>	<b>(835,601)</b>		<b>(9,911,392)</b>
<b>Governmental Capital Assets</b>	<b>\$ 20,932,203</b>	<b>\$ 425,161</b>	<b>\$</b>	<b>\$ 21,357,364</b>

\* as restated

More information on capital assets can be found in Note 5 to the Financial Statements.

**Debt Administration**

At year-end the District had \$20,827,075 in long-term debt as shown below:

	Balance*			Balance	Amounts
	August 31, 2012	Additions	Retirements	August 31, 2013	Due Within One Year
<b>Governmental Activities:</b>					
Bonds payable:					
Series 2003	\$ 3,145,000	\$	\$ 3,145,000	\$	\$
Series 2005	6,030,000		410,000	5,620,000	38,097
Series 2007	8,844,480		185,000	8,659,480	190,000
Series 2013		3,110,000	295,000	2,815,000	330,000
	18,019,480	3,110,000	4,035,000	17,094,480	558,097
Other liabilities:					
Loans	794,110	1,309,670	217,043	1,886,737	331,067
Capital leases	878,245		83,699	794,546	88,332
Premiums		134,967	9,819	125,148	
Accreted interest	883,100	43,064		926,164	376,903
	2,555,455	1,487,701	310,561	3,732,595	796,302
	<b>\$ 20,574,935</b>	<b>\$ 4,597,701</b>	<b>\$ 4,345,561</b>	<b>\$ 20,827,075</b>	<b>\$ 1,354,399</b>

\* as restated

More information on long-term debt can be found in Note 6 to the Financial Statements.

***HEMPSTEAD INDEPENDENT SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)***

**Economic Factors and Next Year's Budgets and Tax Rates**

For the 2014 fiscal year, the District's tax rate was set at \$1.17 for maintenance and operations and \$0.21 for debt service. Property values for the 2014 fiscal year (2013 tax year) increased by approximately 1.7%. Estimated total General Fund appropriations for the 2014 fiscal year are approximately \$13.4 million and will offset by estimated revenues of \$113.6 million.

**Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Business office, at 524 Austin Street, Hempstead, Texas 77445.

## **BASIC FINANCIAL STATEMENTS**

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF NET POSITION**  
*August 31, 2013*

*Exhibit A-1*

<u>Data Control Codes</u>	<u>Governmental Activities</u>
<b>Assets</b>	
1110 Cash and cash equivalents	\$ 867,712
1120 Investments	1,926,838
1220 Delinquent property taxes receivables	1,234,148
1230 Allowance for uncollectable taxes (credit)	(321,303)
1240 Due from other governments	22,087
<b>Capital assets:</b>	
1510 Land	122,752
<b>Capital Assets, net of accumulated depreciation:</b>	
1520 Buildings and improvements, net	19,974,356
1530 Furniture and equipment, net	1,260,256
<b>1000 Total Assets</b>	<u>25,086,846</u>
<b>Liabilities</b>	
2110 Accounts payable	170,857
2140 Interest payable	96,010
2160 Accrued wages payable	362,130
2180 Due to other governments	337,364
<b>Noncurrent Liabilities:</b>	
2501 Due within one year	1,354,399
2502 Due in more than one year	19,472,676
<b>2000 Total Liabilities</b>	<u>21,793,436</u>
<b>Net Position</b>	
3200 Net investment in capital assets	810,396
<b>Restricted for:</b>	
3820 Federal and state programs	46,315
3850 Debt service	161,870
3900 <b>Unrestricted</b>	2,274,829
<b>3000 Total Net Position</b>	<u>\$ 3,293,410</u>

See Notes to the Financial Statements

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended August 31, 2013

*Exhibit B-1*

Data Control Codes	Functions/Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Governmental activities:</b>					
11	Instruction	\$ 8,164,076	\$	\$ 1,306,484	\$ (6,857,592)
	Instructional Resources and Media				
12	Services	196,104		6,802	(189,302)
13	Curriculum and Staff Development	173,006		97,438	(75,568)
21	Instructional Leadership	163,492		5,445	(158,047)
23	School Leadership	774,763		37,568	(737,195)
	Guidance, Counseling, and Evaluation				
31	Services	341,735		14,440	(327,295)
33	Health Services	106,527		285,203	178,676
34	Student Transportation	530,766		17,503	(513,263)
35	Food Service	699,179	78,210	605,803	(15,166)
36	Extracurricular Activities	775,133	42,628	22,115	(710,390)
41	General Administration	794,096		26,604	(767,492)
51	Facilities maintenance and operations	1,498,076		29,722	(1,468,354)
52	Security and Monitoring Services	173,330		8,449	(164,881)
53	Data Processing Services	119,657		2,485	(117,172)
61	Community Services	27,097		9,003	(18,094)
71	Interest on Long-term Debt	953,051		234,831	(718,220)
99	Payments to appraisal districts	139,501			(139,501)
<b>TG</b>	<b>Total governmental activities</b>	<b>15,629,589</b>	<b>120,838</b>	<b>2,709,895</b>	<b>(12,798,856)</b>
<b>TP</b>	<b>Total primary government</b>	<b>\$ 15,629,589</b>	<b>\$ 120,838</b>	<b>\$ 2,709,895</b>	<b>\$ (12,798,856)</b>
<b>General revenues:</b>					
Taxes:					
<b>MT</b>	Property taxes, levied for general purposes				5,123,330
<b>DT</b>	Property taxes, levied for debt service				936,120
<b>SF</b>	State-aid formula grants				7,272,411
<b>IE</b>	Investment earnings				9,627
<b>MI</b>	Miscellaneous				163,282
<b>TR</b>	<b>Total general revenues, special items, and transfers</b>				<b>13,504,770</b>
<b>CN</b>	Change in net position				705,914
<b>NB</b>	<b>Net position - beginning</b>				4,714,219
<b>PA</b>	Prior period adjustments				(2,126,723)
<b>NE</b>	<b>Net position - ending</b>				<b>\$ 3,293,410</b>

See Notes to the Financial Statements

## HEMPSTEAD INDEPENDENT SCHOOL DISTRICT

Exhibit C-1

## BALANCE SHEET

## GOVERNMENTAL FUNDS

August 31, 2013

Data Control Codes	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Assets</b>				
1110	Cash and temporary investments	\$ 434,657	\$ 363,019	\$ 70,036
1120	Investments	1,926,836		2
	Receivables:			
1220	Delinquent property taxes receivables	993,575	240,573	1,234,148
1230	Allowance for uncollectible taxes (credit)	(265,915)	(55,388)	(321,303)
1240	Receivables from other governments		22,087	22,087
1260	Due from other funds	32,386		32,386
<b>1000</b>	<b>Total Assets</b>	<b>\$ 3,121,539</b>	<b>\$ 548,204</b>	<b>\$ 92,125</b>
<b>Liabilities, Deferred Inflows and Fund Balance</b>				
<b>Liabilities:</b>				
2110	Accounts payable	\$ 153,343	\$	\$ 17,514
2160	Accrued wages payable	362,130		362,130
2170	Due to other funds		13,904	18,482
2180	Due to State	337,364		337,364
<b>2000</b>	<b>Total Liabilities</b>	<b>852,837</b>	<b>13,904</b>	<b>35,996</b>
<b>Deferred Inflows of Resources</b>				
2600	Unavailable revenue - property taxes	727,660	185,185	912,845
	<b>Total Deferred Outflows of Resources</b>	<b>727,660</b>	<b>185,185</b>	<b>912,845</b>
<b>Fund Balance:</b>				
<b>Restricted for:</b>				
3450	Federal/State Grant Funds		46,315	46,315
3470	Capital acquisitions		3,687	3,687
3480	Debt service	349,115		349,115
3545	Campus activity fund		6,127	6,127
3600	<b>Unassigned</b>	<b>1,541,042</b>		<b>1,541,042</b>
<b>3000</b>	<b>Total fund balances</b>	<b>1,541,042</b>	<b>349,115</b>	<b>56,129</b>
<b>4000</b>	<b>Total Liabilities, Deferred Inflows and Fund Balances</b>	<b>\$ 3,121,539</b>	<b>\$ 548,204</b>	<b>\$ 92,125</b>

See Notes to the Financial Statements.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL FUNDS TO**  
**STATEMENT OF NET POSITION**  
*August 31, 2013*

*Exhibit C-2*

<u>Data Control Codes</u>		
	<b>Total fund balance, governmental funds</b>	\$ 1,946,286
	Amounts reported for governmental activities in the statement of net position (A-1) are different because:	
<b>1</b>	Capital assets, net of depreciation, used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	21,357,364
<b>2</b>	Property taxes receivable and related penalties and interest have been levied and are due this year, but are not available soon enough to pay for the current period's expenditures, and therefore are reported as unavailable in the funds (net of allowance for uncollectible accounts).	912,845
<b>3</b>	Interest payable on long-term liabilities, is due within a year, but is not included in the fund financial statements	(96,010)
	Long-term liabilities are not due and payable in the current period, and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:	
<b>4</b>	General obligation bonds	(17,094,480)
<b>5</b>	Loans payable	(1,886,737)
<b>6</b>	Capital leases payable	(794,546)
<b>7</b>	Premium on issuance	(125,148)
<b>8</b>	Accreted interest on capital appreciation bonds	(926,164)
	<b>Total net position - governmental activities</b>	<u>\$ 3,293,410</u>

See Notes to the Financial Statements.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - GOVERNMENTAL FUNDS**  
For the Year Ended August 31, 2013

Exhibit C-3

<b>Data Control Codes</b>		<b>General Fund</b>	<b>Debt Service Funds</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>Revenues</b>					
5700	Local, intermediate, and out-of-state	\$ 5,338,090	\$ 982,548	\$ 78,230	\$ 6,398,868
5800	State program revenues	7,742,336	234,831	75,709	8,052,876
5900	Federal program revenues	289,404		1,654,282	1,943,686
<b>5020</b>	<b>Total revenues</b>	<u>13,369,830</u>	<u>1,217,379</u>	<u>1,808,221</u>	<u>16,395,430</u>
<b>Expenditures</b>					
<b>Current:</b>					
0011	Instruction	6,704,707		1,039,132	7,743,839
0012	Instructional resources and media services	158,352			158,352
0013	Curriculum and instructional staff development	86,348		94,082	180,430
0021	Instructional leadership	163,492			163,492
0023	School leadership	757,288			757,288
0031	Guidance, counseling and evaluation services	341,735			341,735
0033	Health services	104,840			104,840
0034	Student transportation	926,309			926,309
0035	Food services			645,320	645,320
0036	Extracurricular activities	649,258			649,258
0041	General administration	763,420			763,420
0051	Facilities maintenance and operations	1,439,073			1,439,073
0052	Security and monitoring services	203,778			203,778
0053	Data processing services	116,812			116,812
0061	Community services	19,315		7,782	27,097
<b>Debt service:</b>					
0071	Principal on long-term debt	300,742	890,000		1,190,742
0072	Interest on long-term debt	74,687	640,920		715,607
0073	Debt issuance costs and fees	16,529	149,831		166,360
<b>Capital outlay:</b>					
0081	Capital outlay	738,758			738,758
<b>Intergovernmental:</b>					
0099	Other intergovernmental charges	139,501			139,501
<b>6030</b>	<b>Total Expenditures</b>	<u>13,704,944</u>	<u>1,680,751</u>	<u>1,786,316</u>	<u>17,172,011</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(335,114)</u>	<u>(463,372)</u>	<u>21,905</u>	<u>(776,581)</u>
<b>Other Financing Sources (Uses)</b>					
7911	Issuance of Bonds		3,110,000		3,110,000
7914	Loan proceeds	1,309,670			1,309,670
7915	Transfers in		260,000		260,000
7916	Premium on issuance of bonds		134,967		134,967
8911	Transfers out	(260,000)			(260,000)
8949	Payments to refunding escrow agent		(3,145,000)		(3,145,000)
<b>7080</b>	<b>Total other financing sources (uses)</b>	<u>1,049,670</u>	<u>359,967</u>		<u>1,409,637</u>
1200	Net change in fund balances	714,556	(103,405)	21,905	633,056
<b>0100</b>	<b>Fund Balance - beginning</b>	890,996	452,520	107,930	1,451,446
	<b>Prior Period Adjustment</b>	(64,510)		(73,706)	(138,216)
<b>3000</b>	<b>Fund Balance - ending</b>	<u>\$ 1,541,042</u>	<u>\$ 349,115</u>	<u>\$ 56,129</u>	<u>\$ 1,946,286</u>

See Notes to the Financial Statements.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**

*Exhibit C-4*

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE OF GOVERNMENTAL FUNDS TO THE  
STATEMENT OF ACTIVITIES**

*For the Year Ended August 31, 2013*

<u>Data Control Codes</u>		
	Net change in fund balances - total governmental funds (from C-3)	\$ 633,056
	Amounts reported for governmental activities in the statement of activities (B-1) are different	
<b>1</b>	Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	
	Governmental funds capital outlay expenditures	\$ 1,260,762
	Governmental activities depreciation expense	<u>(835,601)</u>
		425,161
<b>2</b>	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(59,925)
<b>3</b>	Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	890,000
<b>4</b>	Repayment of loans payable is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	217,043
<b>5</b>	Repayment of capital leases is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	83,699
<b>6</b>	Proceeds from issuance of long-term debt is reported as an other financing source in the governmental funds. In the government-wide financial statements, proceeds are treated as an increase in long-term liabilities.	
	Payment to escrow agent for payment of refunded bonds	3,145,000
	Proceeds from the current year issuance of refunding bond	(3,110,000)
	Premium on issuance of bonds	(134,967)
	Loan proceeds	<u>(1,309,670)</u>
		(1,409,637)
<b>7</b>	Amortization of premium/discount on bond issuance	9,819
<b>8</b>	Accreted interest on capital appreciation bonds	(43,064)
<b>9</b>	Increase in interest payable not recognized in fund statements	(40,238)
	<b>Change in net position of governmental activities (see B-1)</b>	<u><u>\$ 705,914</u></u>

See Notes to the Financial Statements.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF FIDUCIARY NET POSITION**  
*August 31, 2013*

*Exhibit E-1*

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
	<u>Scholarship Fund</u>	<u>Student Activity</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 8,259	\$ 82,369
<b>Total Assets</b>	<u>\$ 8,259</u>	<u>\$ 82,369</u>
<b>Liabilities</b>		
Due to student groups	\$	\$ 82,369
<b>Total Liabilities</b>	<u>\$</u>	<u>\$ 82,369</u>
<b>Net Position</b>		
Held in Trust	8,259	
<b>Total Net Position</b>	<u>\$ 8,259</u>	

See Notes to the Financial Statements.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION**  
*For the Year Ended August 31, 2013*

*Exhibit E-2*

	<u>Private Purpose Trust Fund</u>	<u>Scholarship Fund</u>
<b>Additions</b>		
Investment earnings:		
Interest Income	\$          16	
Revenue from Foundations, Other Non-Profit Organizations, Gifts and Bequests		4,709
<b>Total additions</b>		<u>4,725</u>
Beginning net position		<u>3,534</u>
<b>Ending net position</b>	<u>\$          8,259</u>	

See Notes to the Financial Statements.

**Note 1 - Summary of Significant Accounting Policies**

The Hempstead Independent School District (District) is an independent 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 (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants. Additionally, it complies with the requirements of the appropriate version of Texas Education Agency (TEA) *Financial Accountability System Resource Guide* (FASRG) and the requirements of contracts and grants of agencies from which it receives funds.

The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

**Reporting Entity**

The District is considered an independent entity for financial reporting purposes and is considered a primary government. As required by generally accepted accounting principles, these general purpose financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations or functions as part of the District's financial reporting entity. Based on these considerations, the District's general purpose financial statements do not include any other entities. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is a part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments. Additionally, prescribed criteria under generally accepted accounting principles include: considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* normally are supported by taxes and intergovernmental revenue.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Government-wide and Fund Financial Statements (continued)**

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment, are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to students or users who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) operating grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

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

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

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

The fiduciary fund financial statements reflect the District's agency fund, reporting only assets and liabilities, and do not have a measurement focus. The District also has a private purpose trust fund used to account for donations for scholarship funds that are received by the District that are to be awarded to current and former students.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt is reported as other financing resources.

Grant revenues and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the District.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued)**

The District reports the following major governmental funds:

- The *general fund* is the District's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the District reports the following nonmajor fund types:

- The *capital projects fund* is used to account for proceeds from sales of bonds and other revenues to be used for authorized capital outlays, including the acquisition or construction of capital facilities and other capital assets.
- The *special revenue funds* are used to account for resources restricted to, or designated for, specific purposes by a grantor including federally-funded and state-funded grants. Generally, unused balances are returned to the grantor at the close of the specified project periods. With respect to the food service program, funds are rolled over from year to year for use in the program.
- The *fiduciary funds* account for assets held by the District in a trustee capacity or as an agent on behalf of others. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the District's own programs. The District has the following type of fiduciary funds:
  - The *agency fund* is used to account for resources held for others in a custodial capacity. The fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operation. The District's Agency Fund is the student activity funds.
  - The *private-purpose trust fund* is used to account for donations for scholarship funds that are received by the District that are to be awarded to current and former students for post-secondary education purposes.

During the course of operations, the District has activity between funds for various purposes; any residual balances outstanding at year end are reported as due from/to other funds. Further, certain activity occurs during the year involving transfers of resources between funds; in the fund financial statements these amounts are reported at gross amounts as transfers in/out. While these balances are reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements; the effect of the interfund activity has been eliminated from the government-wide financial statements.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Implementation of New Standards**

In the current fiscal, year the District implemented the following new standards:

GASB Statement 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* (“GASB 62”), which incorporates into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict or contradict GASB pronouncements: 1) Financial Accounting Standards Board (FASB) Statements and Interpretations; 2) Accounting Principles Board Opinions; 3) Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedure. Implementation of GASB 62 is reflected in the financial statements and notes to the financial statements.

GASB Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* (“GASB 63”), amends the net asset reporting requirements in Statement No.34 and other pronouncements by incorporating deferred outflows of the resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position rather than net position. Implementation of GASB 63 is reflected in the financial statements.

GASB Statement 65, *Items Previously Reported as Assets and Liabilities* (“GASB 65”), establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Implementation of GASB 65 is reflected in the financial statements.

**Deposits and Investments**

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit, investment pools, (Lone Star and TexSTAR), and money market funds. These external pools operate like a “2a7” pool and these investments are carried at amortized cost in accordance with GASB 31.

Investments for the District are reported at fair value based on quoted market prices at August 31, 2013. The investment pools operate in accordance with appropriate state laws and regulations. The reported value of the pools is the same as the fair value of the pool shares.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Receivables and Payables**

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

Property tax receivables include unpaid property taxes at year-end and are shown net of an allowance for uncollectibles. Revenues from property taxes are recognized when levied to the extent they are available. The District considers property taxes as available when collected. However, not all outstanding property taxes are expected to be collected within one year of the date of the financial statements. Property values are determined by the Appraisal District as of January 1 of each year. Prior to September 1 of each year, the District must adopt its annual budget and as soon thereafter as practicable, shall adopt a tax rate thus creating the tax levy. Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year

**Capital Assets**

Capital assets, which include land, construction in progress, buildings and improvements, furniture and equipment are reported in the governmental column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost that equals or exceeds \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

Buildings and improvements, and 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 and Improvements	20-40
Vehicles	10
Other Equipment	8-20

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Long-term Obligations**

The District's long-term obligations are made up of bond indebtedness. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities column on the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the bonds outstanding method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, 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.

The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. The current requirements for principal and interest expenditures are accounted for in the general fund.

**Fund Equity**

The following classifications describe the relative strength of the spending constraints:

**Nonspendable fund balance** – amounts that are not in spendable form or are required to be maintained intact. During the fiscal year 2013 the district has not reported a fund balance amount in this classification.

**Restricted fund balance** – Amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors.

**Committed fund balance** – amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e. the Board of Trustees). To be reported as committed, amounts cannot be used for any other purposes unless the District takes the same highest level of action to remove or change the constraint. The District establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. A fund balance commitment is further indicated in the budget document as a commitment of the fund

**Assigned fund balance** – amounts the District intends to use for a specific purpose. Intent can be expressed by the District or by an official or body to which the Board of Trustees delegates the authority. The Board has retained this authority. During the fiscal year 2013 the district has not reported a fund balance amount in this classification.

**Unassigned fund balance** – amounts that are available for any purpose. Positive amounts are reported only in the general fund.

**Note 1 - Summary of Significant Accounting Policies (continued)**

**Fund Equity (continued)**

In circumstances where 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 and finally unassigned funds.

**Deferred Outflows/Inflows of Resources**

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

**Data Control Codes**

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

**Use of Estimates**

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

**Note 2 - Deposits and Investments**

**Cash Deposits**

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to the Texas School Depository Act. The depository bank pledges securities which comply with state law and these securities are held for safekeeping and trust with the District's and the depository banks' agent bank. The pledged securities are approved by the Texas Education Agency and shall be in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance. The District's deposits were adequately collateralized as of August 31, 2013.

**Investments**

The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws, except as noted in the schedule of findings. The District further limits its investments to obligations of the U.S. Treasury or the State of Texas, certain U.S. Agencies, certificates of deposit, collateralized mortgage obligations, no-load money market mutual funds, certain municipal securities, repurchase agreements, or investment pools.

*Concentration of Credit Risk* – The District's investment policy requires the investment portfolio to be diversified in terms of investment instruments, maturity scheduling, and financial institutions in order to reduce the risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity, or specific issuer.

*Interest Rate Risk* – Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio as a whole to no more than 360 days, with the exception of bond proceeds that are matched to a specific cash flow; diversification; and by holding securities to maturity. In addition, the District shall not directly invest in an individual security maturing more than twenty-four months from the date of purchase.

*Custodial Credit Risk* – For an investment, 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.

**Note 2 - Deposits and Investments (continued)**

At year end, the District's cash and investments balances were as follows:

	<u>Fair Market Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Rating</u>
<b>Cash and deposits:</b>			
Governmental activities	\$ 867,712	N/A	N/A
Fiduciary funds	90,628	N/A	N/A
<b>Total cash and deposits</b>	<u>958,340</u>		
<b>Investments:</b>			
Lone Star	1,073,093	57	AAA
TexSTAR	853,745	52	AAAm
<b>Total Investments</b>	<u>1,926,838</u>		
 Total Cash and Investments	 <u>\$ 2,885,178</u>		

**Note 3 - Receivables**

Receivables as of August 31, 2013 for the District's individual major and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Debt Service Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Property Taxes	\$ 993,575	\$ 240,573	\$	\$ 1,234,148
Due from other governments			22,087	22,087
Gross Receivables	993,575	240,573	22,087	1,256,235
Less allowance for doubtful accounts	(265,915)	(55,388)		(321,303)
<b>Net Total Receivables</b>	<u>\$ 727,660</u>	<u>\$ 185,185</u>	<u>\$ 22,087</u>	<u>\$ 934,932</u>

Amounts reported as due from other governments consist primarily of receivables due from state agencies for federal grant expenditure reimbursement. As of August 31, 2013, the District's due from other governments was made up of federal and state grants receivable.

**Note 4 – Interfund Receivables, Payables, and Transfers**

Interfund balances consist of short-term lending/borrowing arrangements that result primarily from regularly occurring charges that are paid by the general fund and then charged back to the appropriate fund. Additionally, some lending/borrowing may occur between two or more non-major governmental funds.

The composition of interfund balances as of August 31, 2013, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 32,386	\$
Debt Service Fund		13,904
Nonmajor Governmental Funds		18,482
	<u>\$ 32,386</u>	<u>\$ 32,386</u>

The composition of interfund transfers for the year ended August 31, 2013, is as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Debt Service Fund	\$ 260,000	debt service requirements

**Note 5 - Capital Assets**

Capital asset activity for the year ended August 31, 2013, was as follows:

	<u>Balance *</u>		<u>Balance</u>
	<u>August 31, 2012</u>	<u>Additions</u>	<u>(Retirements) and Transfers</u>
			<u>August 31, 2013</u>
Capital assets, not being depreciated:			
Land	\$ 122,752	\$	\$ 122,752
<b>Total Capital assets, not being depreciated</b>	<u>122,752</u>		<u>122,752</u>
Capital assets, being depreciated:			
Buildings and improvements	26,767,870	738,758	27,506,628
Furniture and equipment	3,117,372	522,004	3,639,376
<b>Total Capital assets, being depreciated</b>	<u>29,885,242</u>	<u>1,260,762</u>	<u>31,146,004</u>
Less accumulated depreciation for:			
Buildings and improvements	(6,869,985)	(662,287)	(7,532,272)
Furniture and Equipment	(2,205,806)	(173,314)	(2,379,120)
<b>Total Accumulated depreciation</b>	<u>(9,075,791)</u>	<u>(835,601)</u>	<u>(9,911,392)</u>
<b>Governmental Capital Assets</b>	<u>\$ 20,932,203</u>	<u>\$ 425,161</u>	<u>\$ 21,357,364</u>

\* as restated

**Note 5 - Capital Assets (continued)**

Depreciation expense was charged to the following functions of the governmental activities:

<u>Function</u>	<u>Depreciation Expense</u>
Instruction	\$ 426,029
Instructional resources and media services	37,752
Curriculum and staff development	765
School leadership	25,663
Health services	1,687
Student transportation	63,259
Food Services	53,859
Extracurricular activities	125,875
General administration	38,864
Plant maintenance and operations	59,003
Data processing services	2,845
	<u>\$ 835,601</u>

**Note 6 - Long-Term Liabilities**

Long-term liability activity for the year ended August 31, 2013, was as follows:

	<u>Balance*</u> <u>August 31,</u> <u>2012</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance</u> <u>August 31,</u> <u>2013</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
<b>Governmental Activities:</b>					
Bonds payable:					
Series 2003	\$ 3,145,000	\$	\$ 3,145,000	\$	\$
Series 2005	6,030,000		410,000	5,620,000	38,097
Series 2007	8,844,480		185,000	8,659,480	190,000
Series 2013		3,110,000	295,000	2,815,000	330,000
	<u>18,019,480</u>	<u>3,110,000</u>	<u>4,035,000</u>	<u>17,094,480</u>	<u>558,097</u>
Other liabilities:					
Loans	794,110	1,309,670	217,043	1,886,737	331,067
Capital leases	878,245		83,699	794,546	88,332
Premiums		134,967	9,819	125,148	
Accreted interest	883,100	43,064		926,164	376,903
	<u>2,555,455</u>	<u>1,487,701</u>	<u>310,561</u>	<u>3,732,595</u>	<u>796,302</u>
	<u>\$ 20,574,935</u>	<u>\$ 4,597,701</u>	<u>\$ 4,345,561</u>	<u>\$ 20,827,075</u>	<u>\$ 1,354,399</u>

\* as restated

The District issues general obligation bonds to provide funds for the construction and equipment of school facilities, and to refund general obligation bonds. General obligation bonds are direct obligations and pledge the full faith and credit of the District.

**Note 6 - Long-Term Liabilities (continued)**

General obligation bonds outstanding at August 31, 2013, are as follows:

<u>Issue</u>	<u>Original Issuance Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding Debt</u>
Unlimited Tax Refunding Bonds, Series 2005	\$ 6,900,000	4.00% - 4.20%	2026	\$ 5,620,000
Unlimited Tax School Building Bonds, Series 2007	9,399,480	5%	2037	8,659,480
Unlimited Tax Refunding Bonds, Series 2013	3,110,000	1.50% - 2.00%	2021	2,815,000
				<u>\$ 17,094,480</u>

On February 19, 2013, the District issued \$3,110,000 in refunding bonds. The proceeds were used to advance refund \$3,145,000 of outstanding series 2003 bonds. Proceeds of the refunding bond series 2013 were \$3,250,684, inclusive of accrued interest of \$5,716 and a premium of \$134,967. The net proceeds of \$3,146,794, (after payment of \$94,734 in underwriting fees and other issuance costs and \$9,156 deposit in the debt service fund) were deposited into an escrow fund to provide for future debt service payments on the refunded bonds. As a result, the refunded amount of bond series 2003 is considered defeased and the liability for those bonds has been removed from the statement of net position.

The reacquisition price exceeded the net carrying amount of the refunded debt by \$1,794; this amount has been expensed during the current year. The transaction resulted in an economic gain of \$268,059. Total debt service payments after the refunding of bonds resulted in a net cash flow savings of \$279,681.

On May 31, 2013 the District issued Maintenance Tax Note, Series 2013A and 2013B for \$467,052 and \$779,416, respectively. The proceeds of the maintenance tax notes will be used to finance certain expenditures of the District. In addition, on November 19, 2012, the District issued a \$63,202 loan for the acquisition of two vehicles.

Annual debt service requirements to maturity for the District's bonds payable and other long-term debt outstanding as of August 31, 2013, are as follows:

<u>Year Ending August 31,</u>	<u>Bonds Payable</u>		<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 558,097	\$ 1,023,170	\$ 331,067	\$ 31,366
2015	536,903	1,047,314	315,036	47,398
2016	955,000	605,842	325,049	37,385
2017	995,000	571,692	335,370	27,064
2018	805,000	537,092	172,007	16,382
2019-2023	5,164,480	2,423,634	408,208	34,793
2024-2028	3,535,000	1,293,402		
2029-2033	1,325,000	746,252		
2034-2038	3,220,000	201,404		
	<u>\$ 17,094,480</u>	<u>\$ 8,449,802</u>	<u>\$ 1,886,737</u>	<u>\$ 194,388</u>

**Note 7 – Operating and Capital Leases**

***Operating Leases***

The District is committed under various operating leases, primarily for office equipment (principally in the General Fund). Future minimum operating lease commitments are as follows:

<u>Year Ending August 31,</u>	
2014	\$ 64,128
2015	44,180
2016	4,068
2017	4,068
2018	<u>1,695</u>
Total	<u><u>\$ 118,139</u></u>

Rent expenditures were \$132,354 for the year ended August 31, 2013.

***Capital Leases***

The District has an outstanding capital lease for an energy management system as of August 31, 2013. The future minimum lease obligations and the net present value of these minimum lease payments as of August 31, 2013 were as follows:

<u>Year Ending August 31,</u>	<u>Governmental Activities</u>
2014	\$ 130,530
2015	130,531
2016	130,531
2017	130,530
2018	130,530
2019-2023	<u>326,325</u>
Total minimum lease payments	978,977
Less: amount representing interest	(184,431)
Present value of minimum lease payments	<u><u>\$ 794,546</u></u>

**Note 8 - Revenues from Local, Intermediate, and Out-of-State sources**

Revenues from local, intermediate and out-of-state sources in the governmental fund types are as follows:

	<b>General Fund</b>	<b>Debt Service Funds</b>	<b>Nonmajor Governmental Funds</b>	<b>Total</b>
Property Taxes	\$ 5,139,799	\$ 979,576	\$	\$ 6,119,375
Investment Income	6,335	2,972	20	9,327
Food Sales			78,210	78,210
Other	191,956			191,956
	<u>\$ 5,338,090</u>	<u>\$ 982,548</u>	<u>\$ 78,230</u>	<u>\$ 6,398,868</u>

**Note 9 - Defined Benefit Pension Plan**

*Plan Description*

Hempstead 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 the employees of the public school systems of Texas. It operates primarily under the provisions of the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. TRS also administers proportional retirement benefits and service credit transfer under Texas Government Code, Title 8, Chapters 803 and 805, respectively. The Texas state legislature has the authority to establish and amend benefits provisions of the pension plan and may, under certain circumstances, grant special authority to the TRS Board of Trustees. TRS issues a publicly available financial report that includes financial statements and required supplementary information for the defined benefit pension plan. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading.

*Funding Policy*

Contribution requirements are not actuarially determined but are established and amended by the Texas state legislature. The state funding policy is as follows: (1) The state constitution requires the legislature to establish a member contribution rate of not less than 6.0% of the member's annual compensation and a state contribution rate of not less than 6.0% and not more than 10.0% of the aggregate annual compensation of all members of the system. (2) A state statute prohibits benefit improvements or contribution reductions if, as a result of a particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action. State law provides for a member contribution rate of 6.4% for fiscal year 2013, 2012 and 2011, and a state contribution rate of 6.4% for fiscal year 2013 of all employees' eligible gross earnings, except for those staff members subject to statutory minimum requirements and those staff members being paid from and participating in federally funded programs. State statutes establish these rates.

**Note 9 - Defined Benefit Pension Plan (continued)**

***Contributions***

Staff members of the District are required to pay 6.4% of their eligible gross earnings to the TRS pension plan. The State of Texas contributes the applicable rate each year of all employees' eligible gross earnings, except for those staff members subject to statutory minimum requirements and those staff members being paid from and participating in federally funded programs. State statutes establish these rates. The statutory minimum requirements are based on the State of Texas teacher schedule adjusted based on local tax rates. For staff members funded by federal programs, the federal programs are required to contribute 6.4% for fiscal year 2013, 6.0% for fiscal year 2012, and 6.644% for fiscal year 2011.

Contributions made by the State, District and staff members for the years ended August 31, 2013, 2012, and 2011, are as follows:

<b>Fiscal Year</b>	<b>State TRS Contributions Made on Behalf of the District</b>	<b>District Required Contributions to TRS</b>	<b>Staff Members Contributions to TRS</b>	<b>District's Annual Covered Payroll</b>
2013	\$ 409,438	\$ 131,292	\$ 540,730	\$ 8,448,900
2012	463,647	120,844	539,875	8,435,541
2011	558,706	153,660	586,200	9,159,377

The contributions made by the State on behalf of the District have been recorded in the governmental funds financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the State.

**Note 10 - Retiree Health Plan**

***Plan Description***

Hempstead Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas (TRS). TRS-Care Retire Plan provides health care coverage for certain person (and their dependents) who retired under TRS. 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 insurance coverage for participants. TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, [www.trs.state.tx.us](http://www.trs.state.tx.us), under the TRS Publications heading.

**Note 10 - Retiree Health Plan (continued)**

***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. The State of Texas and active public school employee contribution rates were 0.5% and .65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at .55% for fiscal years 2013, 2012, and 2011. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than .25% or greater than .75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 0.5%.

Contributions made by the State, District and staff members for the years ended August 31, 2013, 2012, and 2011, are as follows:

<b>Fiscal Year</b>	<b>State TRS Care Contributions Made on Behalf of the District</b>	<b>District Required Contributions to TRS Care</b>	<b>Staff Contributions to TRS Care</b>	<b>District's Annual Covered Payroll</b>
2013	\$ 38,641	\$ 50,781	\$ 54,918	8,448,900
2012	77,952	46,396	54,831	8,435,541
2011	84,102	50,377	59,536	9,159,377

For the current fiscal year and each of the past two years, the District's actual contributions were equal to 100 percent of the required contributions. The contributions made by the state on behalf of the District have been recorded in the governmental funds financial statements of the District as both state revenues and expenditures. These contributions are the legal responsibility of the State.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. Under Medicare Part D, TRS-Care retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the years ended August 31, 2013, 2012 and 2011, the subsidy payments received by TRS-Care on behalf of the District were \$21,844, \$21,891, and \$25,967, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statement of the District.

The Early Retiree Reinsurance Program (ERRP) is a provision of the Patient Protection and Affordable Care Act (PPACA) and provides reimbursement to plan sponsors for a portion of the cost of providing health benefits to retirees between the ages of 55-64 and their covered dependents regardless of age. An "early retiree" is defined as a plan participant aged 55-64 who is not eligible for Medicare and is not covered by an active employee of the plan sponsor. This temporary program is available to help employers continue to provide coverage to early retirees. ERRP reimbursement is available on a first come, first served basis for qualified employers that apply and become certified for the program. TRS has been certified for this program and has received funds from the ERRP program beginning in fiscal year 2012. For the year ended August 31, 2012, the payment received under this program on-behalf of the District was \$20,702. This payment was recorded as equal revenue and expenditures in the governmental fund financial statements of the District. There were no allocations for fiscal year 2013.

**Note 11 - Health Care**

During the year, 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. The contract between the District and the insurer is effective September 1, 2012 to August 31, 2013 and terms of coverage and premiums costs are included in the contractual provisions.

**Note 12 - Contingent Liabilities**

Amounts received or receivable from granting agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be disallowed by the grantor cannot be determined at this time although the District expects such amounts, if any, to be immaterial.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

**Note 13 - Risk Management**

*General*

The District is exposed to various risks related to torts, theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. Such insurance is consistent with the prior year, and no losses were sustained in excess of the coverage over the past three fiscal years.

**Note 14 - Related Party Transactions**

The District entered into a related party transaction with S&D Plumbing for plumbing services to the District, the expenditures related to this vendor during fiscal year ended August 31, 2013 totaled \$53,011. This vendor is related to the District's Business Manager, who is currently on administrative leave. It is unknown whether the vendor was selected using competitive procurement procedures. The amount due subsequent to year end to this vendor is unknown.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS (continued)**

*Exhibit F-1*

**Note 15 - Prior period adjustment**

In preparing the fiscal year 2013 financial statements, management has made prior period adjustments to beginning Net Position for governmental activities relating to capital assets, long-term debt related accounts and the implementation of new accounting standards (see “Implementation of New Standards” Note 1: *Summary of Significant Accounting Policies*).

The amounts and affected accounts are summarized below:

	<b>Net Position Governmental Activities</b>	<b>Capital Assets</b>	<b>Long Term Debt</b>	<b>General Fund Balance</b>	<b>Non Major Fund Balance</b>
Balance as previously reported	\$ 4,714,219	\$ 22,419,362	\$ 20,073,587	\$ 890,996	\$ 107,929
Removal of capital assets no longer in service	(1,487,159)	(1,487,159)			
Write off of deferred loss on refunding from 2005 refunding bonds due to the amortization period having ended in 2011*	(315,236)		315,236		
Implementation of GASB 65: write off of bond issuance costs *	(186,112)		186,112		
Understated accounts payable as of fiscal year ended August 31, 2012	(138,216)			(64,510)	(73,706)
Balances as restated	<u>\$ 2,587,496</u>	<u>\$ 20,932,203</u>	<u>\$ 20,574,935</u>	<u>\$ 826,486</u>	<u>\$ 34,223</u>

\* previously reported as bond premium.

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**REQUIRED SUPPLEMENTARY INFORMATION**

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**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE**  
**GENERAL FUND**  
For the Year Ended August 31, 2013

Exhibit G-1

Data Control Codes		Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
		Original	Final		
		<b>Revenues</b>			
5700	Local and intermediate sources	\$ 4,469,205	\$ 5,272,277	\$ 5,338,090	\$ 65,813
5800	State program revenues	7,605,560	7,657,238	7,742,336	85,098
5900	Federal program revenues	182,000	285,982	289,404	3,422
<b>5020</b>	<b>Total revenues</b>	<u>12,256,765</u>	<u>13,215,497</u>	<u>13,369,830</u>	<u>154,333</u>
<b>Expenditures</b>					
<b>Current:</b>					
0011	Instruction	1,042,266	6,723,387	6,704,707	18,680
0012	Instructional resources and media services	80,151	159,148	158,352	796
0013	Curriculum and instructional staff development	66,213	79,581	86,348	(6,767) *
0021	Instructional leadership	131,739	161,551	163,492	(1,941) *
0023	School leadership	253,549	762,591	757,288	5,303
0031	Guidance, counseling and evaluation services	60,895	341,922	341,735	187
0033	Health services	41,771	105,331	104,840	491
0034	Student transportation	100,847	949,614	926,309	23,305
0036	Extracurricular activities	168,429	655,135	649,258	5,877
0041	General administration	379,889	755,261	763,420	(8,159) *
0051	Facilities maintenance and operations	929,193	1,440,168	1,439,073	1,095
0052	Security and monitoring services	84,279	175,891	203,778	(27,887) *
0053	Data processing services	119,436	115,572	116,812	(1,240) *
0061	Community services	31,137	19,520	19,315	205
<b>Debt Service:</b>					
0071	Principal on long-term debt	285,920	300,744	300,742	2
0072	Interest on long-term debt	89,500	74,688	74,687	1
0073	Debt issuance costs and fees			16,529	(16,529) *
<b>Capital outlay:</b>					
0081	Facilities acquisition and construction		779,416	738,758	40,658
<b>Intergovernmental:</b>					
0099	Other intergovernmental charges	121,000	110,103	139,501	(29,398) *
<b>6030</b>	<b>Total Expenditures</b>	<u>3,986,214</u>	<u>13,709,623</u>	<u>13,704,944</u>	<u>4,679</u>
1100	Excess (deficiency) of revenues over expenditures	<u>8,270,551</u>	<u>(494,126)</u>	<u>(335,114)</u>	<u>159,012</u>
<b>Other Financing Sources (Uses)</b>					
7914	Loan proceeds		1,246,468	1,309,670	63,202
8911	Transfers Out	(500,000)	(260,000)	(260,000)	
<b>7080</b>	<b>Total other financing sources and uses</b>	<u>(500,000)</u>	<u>986,468</u>	<u>1,049,670</u>	<u>63,202</u>
1200	Net change in fund balances	7,770,551	492,342	714,556	222,214
<b>0100</b>	<b>Fund balances - beginning</b>	890,996	890,996	890,996	
	<b>Prior Period Adjustment</b>			(64,510)	(64,510)
<b>3000</b>	<b>Fund balances - ending</b>	<u>\$ 8,661,547</u>	<u>\$ 1,383,338</u>	<u>\$ 1,541,042</u>	<u>\$ 157,704</u>

\* Expenditures exceeding appropriation at the function level.

**Budgets and Budgetary Accounting**

The District adopts annual appropriations type budgets for the General Fund, Child Nutrition Program Fund, and the Debt Service Fund using the same method of accounting as for financial reporting, as required by law. The General Fund Budget appears on Exhibit G-1, and the Child Nutrition Program Fund budget report and the Debt Service Fund budget report appear on J-4 and J-5, respectively.

Expenditures may not legally exceed budgeted appropriations at the function or activity level. Expenditure requests which would require an increase in total budgeted appropriations must be approved by the Trustees through formal budget amendment. State law prohibits trustees from making budget appropriations in excess of funds available and estimated revenues. State law also prohibits amendment of the budget after fiscal year end. Supplemental appropriations were made to the General Fund during the fiscal year ended August 31, 2013.

The administrative level at which responsibility for control of budgeted appropriations begins is at the organizational level within each function of operations. The finance department reviews closely the expenditure requests submitted by the various organizational heads (principal and department heads) throughout the year to ensure proper spending compliance. No public funds of the District shall be expended in any manner other than as provided for in the budget adopted by the Board of Trustees.

The official school budget was prepared for adoption for budgeted governmental fund types by August 20, 2012. The budget was formally adopted by the Board of Trustees at a duly advertised public meeting prior to the expenditure of funds. The final amended budget is filed with the Texas Education Agency (TEA) through inclusion in the annual financial and compliance report.

Encumbrance accounting is utilized in all government fund types. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at year-end and encumbrances outstanding at that time are appropriately provided for in the subsequent year's budget.

During the fiscal year the expenditures exceeded appropriations in the General Fund in several functions (the legal level of compliance) as indicated by an asterisk (\*) in the preceding schedule. Additionally, the District's debt service fund expenditures exceeded appropriations at the fund level, primarily due to refunding bond issued during the year.

**OTHER SUPPLEMENTARY INFORMATION**

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET**  
**ALL NONMAJOR GOVERNMENTAL FUNDS**  
*August 31, 2013*

<b>Data Control Codes</b>	<b>211</b>	<b>224</b>	<b>225</b>
	<b>ESEA Title I, Part A - Improving Basic Programs</b>	<b>IDEA, Part B - Formula</b>	<b>IDEA, Part B - Preschool</b>
<b>Assets</b>			
1110	Cash and temporary investments	\$	\$
1120	Investments		
1240	Receivables from other governments	4,872	12,771
<b>1000</b>	<b>Total Assets</b>	<b>\$ 4,872</b>	<b>\$ 12,771</b>
<b>Liabilities and Fund Balance</b>			
<b>Liabilities:</b>			
2110	Accounts payable	\$ 4,872	\$ 12,602
2170	Due to other funds		169
<b>2000</b>	<b>Total Liabilities</b>	<b>4,872</b>	<b>12,771</b>
<b>Fund Balance:</b>			
<b>Restricted for:</b>			
3450	Federal/State Grant Funds		
3470	Capital Projects		
<b>Committed for:</b>			
3590	Campus Activities		
<b>3000</b>	<b>Total Fund Balances</b>		
<b>4000</b>	<b>Total Liabilities and Fund Balance</b>	<b>\$ 4,872</b>	<b>\$ 12,771</b>

240	244	255	263	288	289
National School Breakfast and Lunch Program	Career and Technical - Basic Grant	Title II, Part A - Teacher & Principal	Title III, Part A - LEP	Garrett A. Morgan Technology and Transportation Education Program	Title VI, Part A - Summer School LEP
\$ 20,072	\$	\$	\$	\$ 13,869	\$
				2,943	
<u>\$ 20,072</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 16,812</u>	<u>\$</u>
\$ 40	\$	\$	\$	\$	\$
				16,812	
<u>40</u>	<u></u>	<u></u>	<u></u>	<u>16,812</u>	<u></u>
20,032					
<u>20,032</u>	<u></u>	<u></u>	<u></u>	<u></u>	<u></u>
<u>\$ 20,072</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$ 16,812</u>	<u>\$</u>

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**COMBINING BALANCE SHEET**  
**ALL NONMAJOR GOVERNMENTAL FUNDS**  
*August 31, 2013*

	<b>401</b>	<b>404</b>	<b>410</b>
<b>Data Control Codes</b>	<b>State-Funded Optional Extended-Year Program</b>	<b>Student Success Initiative</b>	<b>State Textbook Fund</b>
<b>Assets</b>			
1110	Cash and temporary investments	\$ 249	\$ 26,034
1120	Investments		
1240	Receivables from other governments	636	
<b>1000</b>	<b>Total Assets</b>	<b>\$ 249</b>	<b>\$ 26,034</b>
<b>Liabilities and Fund Balance</b>			
<b>Liabilities:</b>			
2110	Accounts payable	\$	\$
2170	Due to other funds	636	
<b>2000</b>	<b>Total Liabilities</b>	<b>636</b>	
<b>Fund Balance:</b>			
<b>Restricted for:</b>			
3450	Federal/State Grant Funds	249	26,034
3470	Capital Projects		
<b>Committed for:</b>			
3590	Campus Activities		
<b>3000</b>	<b>Total Fund Balances</b>	<b>249</b>	<b>26,034</b>
<b>4000</b>	<b>Total Liabilities and Fund Balance</b>	<b>\$ 249</b>	<b>\$ 26,034</b>

429	479	699	
<u>Read to Succeed</u>	<u>Campus Activity Funds</u>	<u>Capital Projects Funds</u>	<u>Total Nonmajor Governmental Funds</u>
\$	\$ 6,127	\$ 3,685	\$ 70,036
		2	2
865			22,087
<u>\$ 865</u>	<u>\$ 6,127</u>	<u>\$ 3,687</u>	<u>\$ 92,125</u>
\$	\$	\$	\$ 17,514
865			18,482
<u>865</u>			<u>35,996</u>
			46,315
		3,687	3,687
	6,127		6,127
	<u>6,127</u>	<u>3,687</u>	<u>56,129</u>
<u>\$ 865</u>	<u>\$ 6,127</u>	<u>\$ 3,687</u>	<u>\$ 92,125</u>

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS**  
*For the Year Ended August 31, 2013*

<u>Data Control Codes</u>		<b>211</b>	<b>224</b>	<b>225</b>
		<b>ESEA Title I, Part A - Improving Basic Programs</b>	<b>IDEA, Part B - Formula</b>	<b>IDEA, Part B - Preschool</b>
	<b>Revenues</b>			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues			
5900	Federal program revenues	544,698	290,893	4,512
<b>5020</b>	<b>Total revenues</b>	<u>544,698</u>	<u>290,893</u>	<u>4,512</u>
	<b>Expenditures</b>			
	<b>Current:</b>			
0011	Instruction	472,868	280,317	4,512
	Curriculum and instructional staff			
0013	development	64,048	10,576	
0035	Food service			
0061	Community services	7,782		
<b>6030</b>	<b>Total Expenditures</b>	<u>544,698</u>	<u>290,893</u>	<u>4,512</u>
1100	Excess (deficiency) of revenues over expenditures			
<b>0100</b>	<b>Fund balance - September 1 (beginning)</b>			
	<b>Prior Period Adjustment</b>			
<b>3000</b>	<b>Fund balance - August 31 (ending)</b>	<u>\$</u>	<u>\$</u>	<u>\$</u>

240 National School Breakfast and Lunch Program	244 Career and Technical - Basic Grant	255 Title II, Part A - Teacher & Principal	263 Title III, Part A - LEP	288 Garrett A. Morgan Technology and Transportation Education Program	289 Title VI, Part A - Summer School LEP
\$ 78,210	\$	\$	\$	\$	\$
4,068					
601,735	18,402	66,302	32,210	90,517	5,013
684,013	18,402	66,302	32,210	90,517	5,013
	18,402	59,734	19,320	90,517	5,013
		6,568	12,890		
645,320					
645,320	18,402	66,302	32,210	90,517	5,013
38,693					
55,045					
(73,706)					
\$ 20,032	\$	\$	\$	\$	\$

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS**  
*For the Year Ended August 31, 2013*

<b>Data Control Codes</b>		<b>401</b>	<b>404</b>	<b>410</b>
		<b>State-Funded Optional Extended-Year Program</b>	<b>Student Success Initiative</b>	<b>State Textbook Fund</b>
	<b>Revenues</b>			
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues		6,486	65,126
5900	Federal program revenues			
<b>5020</b>	<b>Total revenues</b>		<u>6,486</u>	<u>65,126</u>
	<b>Expenditures</b>			
	<b>Current:</b>			
0011	Instruction		6,486	81,934
	Curriculum and instructional staff			
0013	development			
0035	Food service			
0061	Community services			
<b>6030</b>	<b>Total Expenditures</b>		<u>6,486</u>	<u>81,934</u>
1100	Excess (deficiency) of revenues over expenditures			(16,808)
<b>0100</b>	<b>Fund balance - September 1 (beginning)</b>		249	42,842
	<b>Prior Period Adjustment</b>			
<b>3000</b>	<b>Fund balance - August 31 (ending)</b>	<u>\$</u>	<u>\$ 249</u>	<u>\$ 26,034</u>

*Exhibit H-2*  
page 2 of 2

<b>429</b>	<b>479</b>	<b>699</b>	
<b>Read to Succeed</b>	<b>Campus Activity Funds</b>	<b>Capital Projects Funds</b>	<b>Total Nonmajor Governmental Funds</b>
\$ 29	\$	\$ 20	\$ 78,230
			75,709
			1,654,282
<u>29</u>		<u>20</u>	<u>1,808,221</u>
29			1,039,132
			94,082
			645,320
			7,782
<u>29</u>			<u>1,786,316</u>
		20	21,905
	6,127	3,667	107,930
			(73,706)
<u>\$</u>	<u>\$ 6,127</u>	<u>\$ 3,687</u>	<u>\$ 56,129</u>

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## **TEA REQUIRED INFORMATION**

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF DELINQUENT TAXES RECEIVABLE**  
*For the Year Ended August 31, 2013*

<u>Last Ten Fiscal Years</u>	<u>Tax Rates</u>		<u>Net Assessed/Appraised Value For School Tax Purposes</u>	<u>Beginning Balance 9/1/12</u>
	<u>1 Maintenance</u>	<u>2 Debt Service</u>		
2004 and prior	Various	Various	Various	\$ 177,387
2005	1.500000	0.260000	216,175,139	32,983
2006	1.500000	0.220000	242,990,473	45,380
2007	1.370000	0.220000	263,547,938	51,677
2008	1.040000	0.340000	300,609,652	55,579
2009	1.040000	0.340000	333,069,868	68,871
2010	1.170000	0.310000	355,493,922	152,419
2011	1.040000	0.340000	407,611,014	259,823
2012	1.040000	0.340000	416,930,942	449,954
2013	1.170000	0.210000	426,002,298	
<b>1000 Totals</b>				<u><u>\$ 1,294,073</u></u>

<b>20</b>	<b>31</b>	<b>32</b>	<b>40</b>	<b>50</b>
<b>Current Year's Total Levy</b>	<b>Maintenance Total Collections</b>	<b>Debt Service Total Collections</b>	<b>Entire Year's Adjustments</b>	<b>Ending Balance 8/31/13</b>
\$	\$ 4,841	\$ 854	\$ (11,732)	\$ 159,960
	1,480	256	(1)	31,246
	2,948	431	1	42,002
	3,891	625	(1)	47,160
	4,625	1,512		49,442
	8,442	2,760	(1,152)	56,517
	35,421	11,580	(966)	104,452
	71,726	23,441	(2,691)	161,965
	152,304	50,077	(10,529)	237,044
<u>5,878,832</u>	<u>4,690,399</u>	<u>844,073</u>	<u></u>	<u>344,360</u>
<u>\$ 5,878,832</u>	<u>\$ 4,976,077</u>	<u>\$ 935,609</u>	<u>\$ (27,071)</u>	<u>\$ 1,234,148</u>

**Total taxes receivable per Exhibit C-1** \$ 1,234,148

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES FOR COMPUTATION OF**  
**INDIRECT COSTS FOR 2014-2015**  
**GENERAL AND SPECIAL REVENUE FUNDS**  
**For the Year Ended August 31, 2013**

Exhibit J-2

**FUNCTION 41 AND RELATED FUNCTION 53 - GENERAL ADMINISTRATION AND FUNCTION 99 (APPRAISAL DISTRICT COSTS)**

Account Number	Account Name	1 (702) School Board	2 (703) Tax Collection	3 (701) Supt's Office	4 (750) Indirect Cost	5 (720) Direct Cost	6 (other) Miscellaneous	7 Total
611X-6146	PAYROLL COSTS	\$ -	\$ -	\$ 390,511	\$ 198,952	\$ -	\$ -	\$ 589,463
6149	Fringe Benefits (Terminal Leave Only for Separating Employees in Function 41 and Related 53)				600			600
6149	Fringe Benefits (Terminal Leave Only for Separating Employees in all Functions except Function 41 and Related 53)				-			-
6211	Legal Services	101,762	-	-		\$ -		101,762
6212	Audit Services				18,987			18,987
6213	Tax Appraisal and Collection (Appraisal district costs only from function 99)		139,501					139,501
6214	Lobbying				-			-
621X	Other Prof. Services	-	-	-	-			-
6220	Tuition and Transfer Payments							-
6230	Education Service Centers	-	-	-	-			-
6240	Contr. Maint. and Repair					41,397		41,397
6250	Utilities							-
6260	Rentals	-	-	13,449	-			13,449
6290	Miscellaneous Contr.	3,550	-	1,600	9,581			14,731
6310	Operational Supplies, Materials	-	-	-	-			-
6320	Textbooks and Reading	-	-	164	-			164
6330	Testing Materials	-	-	-	-			-
63XX	Other Supplies Materials	779	-	7,086	6,597			14,462
6410	Travel, Subsistence, Stipends	5,776	-	7,588	332			13,696
6420	Ins. and Bonding Costs	-	-	9,750	-			9,750
6430	Election Costs	6,599						6,599
6490	Miscellaneous Operating	13,604	-	8,475	2,096			24,175
6500	Debt Service							-
6600	Capital Outlay						8,188	8,188
6000	TOTAL	\$ 132,070	\$ 139,501	\$ 438,623	\$ 237,145	\$ 41,397	\$ 8,188	\$ 996,924

Total expenditures/expenses for General and Special Revenue Funds 9 \$15,491,260

Less: Deductions of Unallowable Costs

Fiscal Year		
Total Capital Outlay (6600)	10	1,260,762
Total Debt & Lease (6500)	11	391,958
Plant Maintenance (Function 51, 6100-6400)	12	1,439,073
Food (Function 35, 6341 and 6499)	13	-
Stipends (6413)	14	-
Column 4 (above) - Total Indirect Cost		237,145
Subtotal:		3,328,938
Net Allowed Direct Cost		\$12,162,322

Cumulative		
Total Cost of Buildings before Depreciation (1520)	15	\$27,506,628
Historical Cost of Buildings over 50 years old	16	430,322
Amount of Federal Money in building Cost (Net of #16)	17	-
Total Cost of Furniture & Equipment before Depreciation (1530&1540)	18	3,639,376
Historical Cost of Furniture & Equipment over 16 years old	19	185,646
Amount of Federal Money in Furniture & Equipment (Net of #19)	20	-

(8) Note A -

\$94,003	in Function 53 expenditures directly related to Function 41 only are included in this report on administrative costs.
\$139,501	in Function 99 expenditures directly related to appraisal district costs are included in this report.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE**  
**CHILD NUTRITION FUND**  
For the Year Ended August 31, 2013

*Exhibit J-4*

Data Control Codes		Child Nutrition			Variance with Final Budget Positive (Negative)
		Budget			
		Original	Final	Actual	
<b>Revenues</b>					
5700	Local, Intermediate, and Out-of-State	\$ 70,000	\$ 73,275	\$ 78,210	\$ 4,935
5800	State Program Revenues	4,200	4,068	4,068	
5900	Federal Program Revenues	552,000	604,889	601,735	(3,154)
<b>5020</b>	<b>Total Revenues</b>	<b>626,200</b>	<b>682,232</b>	<b>684,013</b>	<b>1,781</b>
<b>Expenditures</b>					
<b>Current:</b>					
0035	Food Services	623,293	728,374	645,320	83,054
<b>6030</b>	<b>Total Expenditures</b>	<b>623,293</b>	<b>728,374</b>	<b>645,320</b>	<b>83,054</b>
1100	Excess (Deficiency) Revenues Over Expenditures	2,907	(46,142)	38,693	84,835
<b>0100</b>	<b>Fund Balance - beginning Prior Period Adjustment</b>	<b>55,045</b>	<b>55,045</b>	<b>55,045</b> <b>(73,706)</b>	<b>(73,706)</b>
<b>3000</b>	<b>Fund Balance - ending</b>	<b>\$ 57,952</b>	<b>\$ 8,903</b>	<b>\$ 20,032</b>	<b>\$ 11,129</b>

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**BUDGETARY COMPARISON SCHEDULE**  
**DEBT SERVICE FUND**  
For the Year Ended August 31, 2013

Exhibit J-5

Data Control Codes		Debt Service Fund			
		Budget			Variance with Final Budget Positive (Negative)
		Original	Final	Actual	
<b>Revenues</b>					
5700	Local, Intermediate, and Out-of-State	\$ 764,619	\$ 990,905	\$ 982,548	\$ (8,357)
5800	State Program Revenues	143,300	234,831	234,831	
<b>5020</b>	<b>Total Revenues</b>	<u>907,919</u>	<u>1,225,736</u>	<u>1,217,379</u>	<u>(8,357)</u>
<b>Expenditures</b>					
<b>Debt Service:</b>					
0071	Bond Principal	900,000	882,300	890,000	(7,700)
0072	Interest on Bond	717,551	697,630	640,920	56,710
0073	Bond Issuance Costs and Fees	1,500	900	149,831	(148,931)
<b>6030</b>	<b>Total Expenditures</b>	<u>1,619,051</u>	<u>1,580,830</u>	<u>1,680,751</u>	<u>(99,921)</u>
1100	Excess (Deficiency) Revenues Over Expenditures	(711,132)	(355,094)	(463,372)	(108,278)
<b>Other Financing Sources (Uses)</b>					
7911	Issuance of bonds			3,110,000	3,110,000
7915	Transfers in	500,000	260,000	260,000	
7916	Premium on issuance of bonds			134,967	134,967
8949	Payments to refunding escrow agent			(3,145,000)	(3,145,000)
<b>7080</b>	<b>Total other financing sources (uses)</b>	<u>500,000</u>	<u>260,000</u>	<u>359,967</u>	<u>99,967</u>
1200	Increase (Decrease) in Fund Balance	(211,132)	(95,094)	(103,405)	(8,311)
<b>0100</b>	<b>Fund Balance - beginning</b>	<u>452,520</u>	<u>452,520</u>	<u>452,520</u>	
<b>3000</b>	<b>Fund Balance - ending</b>	<u>\$ 241,388</u>	<u>\$ 357,426</u>	<u>\$ 349,115</u>	<u>\$ (8,311)</u>

**FEDERAL AWARDS SECTION**

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and by 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 Hempstead Independent School District (the "District") as of and for the year ended August 31, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated July 1, 2014.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion 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.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or 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. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be material weaknesses; findings 2013-01, 2013-02, 2013-03, and 2013-04.

## **Compliance and Other Matters**

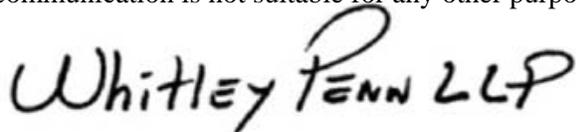
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as findings 2013-05, 2013-06, 2013-07, and 2013-08.

## **District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

## **Purpose of this Report**

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

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas  
July 1, 2014

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

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

**Report on Compliance for Each Major Federal Program**

We have audited Hempstead Independent School District's (the "District") compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2013. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

**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 the 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 included examining, on a test basis, evidence about the 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 the District's compliance.

### **Basis for Qualified Opinion on ESEA, Title I Part A**

As described in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the compliance of the District with CFDA 84.010A ESEA, Title I Part A as described in findings number 2013-10 for Cash Management, 2013-11 for Eligibility, 2013-12 for Procurement and Suspension and Debarment, 2013-13 for Reporting, and 2013-14 for Special Tests and Provisions, nor were we able to satisfy ourselves as to the District's compliance with those requirements by other auditing procedures.

### **Qualified Opinion on ESEA, Title I Part A**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph above, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 84.010A ESEA, Title I Part A for the year ended August 31, 2013.

### **Basis for Qualified Opinion on Child Nutrition Cluster**

As described in the accompanying schedule of findings and questioned costs, we were unable to obtain sufficient documentation supporting the compliance of the District with CFDA 10.553 and 10.555 Child Nutrition Cluster as described in findings number, 2013-15 Eligibility, 2013-16 for Procurement and Suspension and Debarment, 2013-17 for Program Income, and 2013-18 for Special Tests and Provisions, nor were we able to satisfy ourselves as to the District's compliance with those requirements by other auditing procedures.

### **Qualified Opinion on Child Nutrition Cluster**

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph above, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on CFDA 10.553 and 10.555 Child Nutrition Cluster for the year ended August 31, 2013.

### **Other Matters**

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as finding 2013-09. Our opinion on each major federal program is not modified with respect to these matters.

### **Report on Internal Control over Compliance**

Management of the 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 the District's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our 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 the District's internal control over compliance.

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, we identified certain deficiencies in internal control over compliance which we consider to be significant deficiencies.

*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. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item #2013-09 to be a significant deficiency.

#### **District's Response to Findings**

The District's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The District's response was not subjected to the audit procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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.

A handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, slightly slanted style.

Houston, Texas  
July 1, 2014

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
*For The Year Ended August 31, 2013*

**I. Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes, Finding # 2013-01, # 2013-02, # 2013-03, and # 2013-04.
Significant deficiencies identified that are not considered to be material weaknesses?	None identified.
Noncompliance material to financial statements noted?	Yes, Findings # 2013-05, # 2013-06, # 2013-07, and # 2013-08.

**Federal Awards**

Internal control over major programs:	
Material weakness(es) identified?	None identified.
Significant deficiencies identified that are not considered to be material weaknesses?	Yes, Finding # 2013-09.
Type of auditors' report issued on compliance with major programs:	Qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) 2-7 OMB Circular A-133?	Yes, Findings # 2013-09, # 2013-10, # 2013-11, # 2013-12, # 2013-13, # 2013-14, # 2013-15, # 2013-16, # 2013-17, and # 2013-18.
Identification of major programs	
<b>Name of Federal Program or Cluster:</b>	<b>CFDA Number:</b>
ESEA, Title I Part A – Improving Basic Programs	84.010A
Child Nutrition Cluster	10.553 & 10.555
Dollar Threshold Considered Between Type A and Type B Federal Programs	\$300,000
Auditee qualified as low-risk auditee?	No

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**For The Year Ended August 31, 2013**

**II. Financial Statement Findings**

**Material Weakness**

**Finding # 2013-01 – Year-End Close Out Procedures**

*Criteria:* Proper internal controls require that standard fiscal year-end close out procedures are developed, formally documented, and implemented.

*Condition:* During the course of the audit, we noted that year- end close out procedures had not been performed. Significant journal entries were necessary to reconcile the trial balance accounts, including, to record liabilities in the proper fiscal year, to record the activity of the student activity fund, to record issue for refunding bond series 2013, to record capital asset additions during the year and beginning capital asset balances.

*Cause:* The District placed the Business Manager on administrative leave, and the business staff was unable to compile requested data.

*Effect:* Management’s reliance upon the auditor to detect and make significant necessary adjustments is considered to be a material weakness in internal controls.

*Recommendation:* Management should establish fiscal year end close out procedures for all significant areas to ensure that all required entries are posted; trial balance accounts should be reconciled at year-end. In addition, accounting personnel should perform a detailed review of invoices paid before and after year end to ensure that expenditures are recorded in the proper period.

**Finding # 2013-02 – Journal entry review**

*Criteria:* Proper internal controls require journal entries to be properly supported, reviewed and approved prior to being posted into the accounting system.

*Condition:* During the course of the audit, management was unable to provide support for 23 out of 25 sampled journal entries.

*Cause:* The District’s business office did not have any standard operating procedures in place to create, review, and post journal entries to the accounting software system.

*Effect:* There is a risk that improper journal entries are posted and not being detected in a timely manner.

*Recommendation:* Management should establish procedures to ensure all journal entries are reviewed, approved and properly supported prior to being posted into the accounting system.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
*For The Year Ended August 31, 2013*

**II. Financial Statement Findings (continued)**

**Finding # 2013-03 – Supporting documentation**

*Criteria:* Management is responsible for reconciling account balances at year-end, and for maintaining supporting documentation of account balances and other activity during the year.

*Condition:* During the course of the audit, we requested several information to complete our audit procedures, management was unable to provide supporting documentation or information for several areas, including supporting documentation of two selected checks, a master vendor list, prior year loan agreements, operating leases, SHARS revenue recorded in the general fund, a schedule of student fees, information to complete the average daily attendance test and the state compensatory education test, and explanations to the material variances from prior year for various accounts during our analytical review of the basic financial statement accounts. In addition, management was unable to provide supporting documentation or information on the \$104,386 funds received related to the grant recorded in fund 288; from this amount, \$90,517 was recorded by management as current year activity, it appears that of the recorded current year activity \$58,916 was related to prior year expenditures, management was unable to confirm or deny our assessment.

*Cause:* Lack of coordination between the various District departments and the business office personnel.

*Effect:* There is a risk that account balances are materially misstated and not be detected due to the lack of supporting documentation.

*Recommendation:* Management should establish procedures to ensure documentation is maintained to reconcile all accounts and to support all transactions.

**Finding # 2013-04 – Payroll Control Activities**

*Criteria:* Management is responsible for designing control activities to achieve proper internal controls and proper accurate reporting.

*Condition:* During our review of selected payroll expenditures, it was noted that the District does not maintain effective internal control policies and procedures regarding payroll: management was unable to provide a stipend schedule or a salary schedule for administration or hourly employees; in one instance, we noted a lack of adequate records supporting years of service; in another instance, no records were found for one employee; and on a separate instance evidence of pay authorization was not located for one employee.

*Cause:* The business office did not have policies and procedures to implement controls related to payroll activities.

*Effect:* Payroll expenditures might be materially misstated and the misstatement might not be detected by management on a timely manner.

*Recommendation:* Management should review the current internal control policies and procedures to ensure payroll expenditures are properly reviewed and supported.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
*For The Year Ended August 31, 2013*

**II. Financial Statement Findings (continued)**

**Compliance and Other Matters**

**Finding # 2013-05 – Investment Policy**

*Criteria:* The Public Funds Investment Act requires that local governments adopt a written investment policy regarding the investment of its funds and funds under its control, the Board of Trustees shall review its investment policy and investment strategies not less than annually. In addition, the Act requires the District to obtain a written instrument from any business organization, including investment pools, seeking to engage in an investment transaction with the District, stating that the investment policy has been received and reviewed and that they acknowledge that they have implemented reasonable procedures and controls to preclude unauthorized investment transactions.

*Condition:* During our review of compliance with the Public Funds Investment Act, we noted that the District did not adopt a current investment policy. The investment policy is not reviewed annually; the latest policy available for our review was dated September 22, 2011. In addition, no documentation was available as evidence that the District provided the investment policy to any business organization, including investment pools, for review.

*Cause:* It appears a proper audit trail was not maintained and the District personnel was unaware of the requirement.

*Effect:* The District is not in compliance with the Public Funds Investment Act.

*Recommendation:* Management should review the Public Funds Investment Act requirements and annually adopt an investment policy that meets the requirements of the Act.

**Finding # 2013-06 – Expenditures in Excess of Appropriations**

*Criteria:* State law mandates that expenditures do not exceed appropriations at the function level within funds.

*Condition:* Actual expenditures exceeded appropriations at various function levels in both the General and Debt Service Funds.

*Cause:* Budget was not monitored and budget amendments were not submitted to the board for approval.

*Effect:* The District is not in compliance with state law.

*Recommendation:* Management should implement procedures to review budget to actual comparisons, budget amendments should be prepared and approved prior to expending funds for which appropriations are not available.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**For The Year Ended August 31, 2013**

**II. Financial Statement Findings (continued)**

**Finding # 2013-07 – State Mandated Program Spending Requirement**

*Criteria:* The Texas Education Agency's Financial Accountability and Resource Guide (FASRG) requires that the District expend at least 58% of the Foundation School Program allotment designated for Career and Technology on that specific program.

*Condition:* The District did not expend the required percentage of the Foundation School Allotment for Career and Technology by \$17,667 or 2%, as required by the Texas Education Agency.

*Cause:* It appears a proper audit trail was not maintained and the District personnel was unaware of the requirement.

*Effect:* The District is not in compliance with the spending requirements established by the Texas Education Agency.

*Recommendation:* The District should evaluate its future spending to ensure that it maintains expenditures for Career and Technology at the level required by the Texas Education Agency.

**Finding # 2013-08 – Competitive Procurement Procedures**

*Criteria:* Competitive procurement procedures are required for making purchases involving dollar amounts in excess of \$50,000 or more, in the aggregate, over a twelve month period.

*Condition:* During our review of procurement procedures, the District personnel were not able to provide competitive procurement documentation for any purchases made during the fiscal year or to assist in providing information to complete the procurement test. Sufficient documentation was not provided to determine whether the District is monitoring cumulative purchases of similar items, which in the aggregate over a twelve month period, could be subject to state bidding requirements.

*Cause:* It appears a proper audit trail was not maintained and the District personnel was unaware of the requirement.

*Effect:* This condition may cause the District to not be in compliance with the state bidding requirements. There is a risk that purchases of similar items aggregating amounts in excess of \$50,000 were not purchased through competitive procurement procedures.

*Recommendation:* Management should establish procedures to monitor purchases of similar commodities on a regular basis to identify items which should be purchased under competitive procurement procedures. In addition, competitive procurement procedures may result in lower costs per unit or in the aggregate that the District could take advantage of.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**For The Year Ended August 31, 2013**

**III. Federal Award Findings and Questioned Costs**

**Finding # 2013-09 – ESEA, Title I Part A – Payroll**

*Criteria:* OMB A-87 requires that charges to federal grants should be allowable and properly supported.

*Condition:* During our review of payroll charges to Title I, Part A we noted the District does not have formal approval documentation kept on each personnel file for employees paid out of federal funds. In addition, federal payroll expenditures charged to this grant appear to be overstated, supporting documentation did not agree to the amounts reported by \$10,833; management was unable to confirm or deny our assessment.

*Cause:* It appears a proper audit trail was not maintained and the District personnel was unaware of the requirement.

*Effect:* Unallowable personnel charges could be charged to the grant resulting in non-compliance with requirements of OMB Circular A-87.

*Questioned Cost:* Unknown, at least \$10,833 identified.

*Recommendation:* Management should implement policies and procedures to ensure all personnel charges to federal grants comply with grant related documentation guidance.

**Finding # 2013-10 – ESEA, Title I Part A – Cash Management**

*Criteria:* The District is required to comply with the cash management requirements contained in the Circular A-102 Common Rule Section 80.21 (34 CFR 80.21).

*Condition:* Management was unable to provide reimbursement requests submitted to the TEA during the fiscal year, including supporting documentation, evidencing compliance with this compliance requirement.

*Cause:* It appears a proper audit trail was not maintained and the District personnel was unaware of the requirement.

*Effect:* We were unable to obtain sufficient documentation supporting the compliance of the District with this compliance requirement and we were unable to determine compliance by applying other auditing procedures.

*Questioned Cost:* Unknown.

*Recommendation:* Management should review the cash management compliance requirements, implement policies and procedures to ensure compliance, and maintain supporting documentation to evidence compliance.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
*For The Year Ended August 31, 2013*

**III. Federal Award Findings and Questioned Costs (continued)**

**Finding # 2013-11 – ESEA, Title I Part A – Eligibility**

*Criteria:* The District is required to comply with the eligibility requirements contained in Section 1113 (20 USC 6313), Section 1115 (20 USC 6315), Section 1116 (20 USC 6316), and Section 1120 (20 USC 6320) of Title I Part A of the ESEA.

*Condition:* Management was unable to provide the District's allocation of Title I Part A funds to eligible campuses evidencing compliance with this compliance requirement.

*Cause:* It appears a proper audit trail was not maintained and the District personnel was unaware of the requirement.

*Effect:* We were unable to obtain sufficient documentation supporting the compliance of the District with this compliance requirement and we were unable to determine compliance by applying other auditing procedures.

*Questioned Cost:* Unknown.

*Recommendation:* Management should review the eligibility compliance requirements, implement policies and procedures to ensure compliance, and maintain supporting documentation to evidence compliance.

**Finding # 2013-12 – ESEA, Title I Part A – Procurement and Suspension and Debarment**

*Criteria:* The District is required to comply with the procurement and suspension and debarment requirements contained in Circular A-102 Common Rule Section 80.35 (34 CFR 80.35) and Section 80.36 (34 CFR 80.36).

*Condition:* Management was unable to provide evidence that procurement procedures conform to applicable federal law regulations, including the District's verification of vendors for suspension or debarment.

*Cause:* It appears a proper audit trail was not maintained and the District personnel was unaware of the requirement.

*Effect:* We were unable to obtain sufficient documentation supporting the compliance of the District with this compliance requirement and we were unable to determine compliance by applying other auditing procedures.

*Questioned Cost:* Unknown.

*Recommendation:* Management should review the procurement and suspension and debarment compliance requirements, implement policies and procedures to ensure compliance, and maintain supporting documentation to evidence compliance.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
*For The Year Ended August 31, 2013*

**III. Federal Award Findings and Questioned Costs (continued)**

**Finding # 2013-13 – ESEA, Title I Part A – Reporting**

*Criteria:* The District is required to comply with the reporting requirements contained in Circular A-102 Common Rule Section 80.41 (34 CFR 80.41) and US Department of Education National Center for Education Statistics.

*Condition:* Management was unable to provide evidence that the District submitted reimbursement requests and the per pupil expenditure report in accordance with federal requirements.

*Cause:* It appears a proper audit trail was not maintained and the District personnel were unaware of the requirement.

*Effect:* We were unable to obtain sufficient documentation supporting the compliance of the District with this compliance requirement and we were unable to determine compliance by applying other auditing procedures.

*Questioned Cost:* Unknown.

*Recommendation:* Management should review the reporting compliance requirements, implement policies and procedures to ensure compliance, and maintain supporting documentation to evidence compliance.

**Finding # 2013-14 – ESEA, Title I Part A – Special Tests and Provisions: Participation of Private School Children**

*Criteria:* The District is required to comply with the participation of private school children requirement contained in Section 1120 of Title I Part A of the ESEA.

*Condition:* Management was unable to determine whether any Title I Part A funds were provided to private schools.

*Cause:* It appears a proper audit trail was not maintained and the District personnel were unaware of the requirement.

*Effect:* We were unable to obtain sufficient documentation supporting the compliance of the District with this compliance requirement and we were unable to determine compliance by applying other auditing procedures.

*Questioned Cost:* Unknown.

*Recommendation:* Management should review the participation of private school children compliance requirement, implement policies and procedures to ensure compliance, and maintain supporting documentation to evidence compliance.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**For The Year Ended August 31, 2013**

**III. Federal Award Findings and Questioned Costs (continued)**

**Finding # 2013-15 – Child Nutrition Cluster – Eligibility**

*Criteria:* The District is required to comply with the eligibility requirements contained in the USDA Child Nutrition Programs – Income Eligibility Guidelines.

*Condition:* Management was unable to provide sufficient supporting documentation evidencing compliance with this compliance requirement. In two instances we were unable to determine whether the students met age requirements to participate in the child nutrition program, in two separate instances the applications provided were incomplete and we were unable to determine proper free or reduced meal eligibility status, in four different the students appeared to be eligible to participate in the program however, we were unable to agree the student information to the student eligibility listing.

*Cause:* It appears a proper audit trail was not maintained and the District personnel was unaware of the requirement.

*Effect:* We were unable to obtain sufficient documentation supporting the compliance of the District with this compliance requirement and we were unable to determine compliance by applying other auditing procedures.

*Questioned Cost:* Unknown.

*Recommendation:* Management should review the eligibility requirements, implement policies and procedures to ensure compliance, and maintain supporting documentation to evidence compliance.

**Finding # 2013-16 – Child Nutrition Cluster – Procurement and Suspension and Debarment**

*Criteria:* The District is required to comply with the procurement and suspension and debarment requirements contained in 7 CFR 210.21, 7 CFR 210.16, and 2 CFR 417.

*Condition:* Management was unable to provide evidence that procurement procedures conform to applicable federal law regulations, including the District's verification of vendors for suspension or debarment.

*Cause:* It appears a proper audit trail was not maintained and the District personnel was unaware of the requirement.

*Effect:* We were unable to obtain sufficient documentation supporting the compliance of the District with this compliance requirement and we were unable to determine compliance by applying other auditing procedures.

*Questioned Cost:* Unknown.

*Recommendation:* Management should review the procurement and suspension and debarment compliance requirements, implement policies and procedures to ensure compliance, and maintain supporting documentation to evidence compliance.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**For The Year Ended August 31, 2013**

**III. Federal Award Findings and Questioned Costs (continued)**

**Finding # 2013-17 – Child Nutrition Cluster – Program Income**

*Criteria:* The District is required to comply with the program income requirement contained in Circular A-102 Common Rule Section \_\_.21, \_\_.25, 2 CFR 215.22, and 2 CFR Section 215.24.

*Condition:* Management was unable to provide a listing of program income transactions during the fiscal year, such as cash receipts, and we were unable to determine whether program income transactions were used in accordance with the program requirements.

*Cause:* It appears a proper audit trail was not maintained and the District personnel was unaware of the requirement.

*Effect:* We were unable to obtain sufficient documentation supporting the compliance of the District with this compliance requirement and we were unable to determine compliance by applying other auditing procedures.

*Questioned Cost:* Unknown.

*Recommendation:* Management should review the program income compliance requirement, implement policies and procedures to ensure compliance, and maintain supporting documentation to evidence compliance.

**Finding # 2013-18 - Child Nutrition Cluster – Special Tests and Provisions: Verification of Free and Reduced Price Applications (NSLP)**

*Criteria:* The District is required to comply with the verification of free and reduced price applications (NSLP) requirement contained in 7 CFR Section 245.6a.

*Condition:* Management was unable to provide evidence that the District performed the required verification of the current free and reduced price eligibility of households by the stated deadline of November 15 of the school year.

*Cause:* It appears a proper audit trail was not maintained and the District personnel was unaware of the requirement.

*Effect:* We were unable to obtain sufficient documentation supporting the compliance of the District with this compliance requirement and we were unable to determine compliance by applying other auditing procedures.

*Questioned Cost:* Unknown.

*Recommendation:* Management should review the verification of free and reduced price applications (NSLP) compliance requirement, implement policies and procedures to ensure compliance, and maintain supporting documentation to evidence compliance.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
*For The Year Ended August 31, 2013*

**IV. Status Of Prior Year Findings and Questioned Costs**

There were no prior year findings reported.

**V. Corrective Action Plan**

**Finding # 2013-01 – Year-End Close Out Procedures**

*Response:* The district is planning on hiring a Business Manager. Once that person hired they will have to work closely with both, the Superintendent and business office personnel to ensure that year-end close-out procedures are followed in a timely manner.

*Contact Person:* Ms. Marcia Lawton, Interim Superintendent

*Estimated Completion Date:* August 31, 2014

**Finding # 2013-02 – Journal entry review**

*Response:* The business office will initiate and create all of the journal entries to be used in the business off. All journal entries will have a place for the person preparing the journal entry to initial, and a signature location for the Business Manager to sign on. Once the journal entry has been properly recorded on the districts business software the journal entry will be signed and filed for quick access.

*Contact Person:* Ms. Marcia Lawton, Interim Superintendent

*Estimated Completion Date:* August 31, 2014

**Finding # 2013-03 – Supporting documentation**

*Response:* All business office and federal programs personnel will be trained on the proper way to follow and record both revenue and expenditure for all federal programs.

*Contact Person:* Ms. Marcia Lawton, Interim Superintendent

*Estimated Completion Date:* August 31, 2014

**Finding # 2013-04 – Payroll Control Activities**

*Response:* The new administration is currently looking at business department standard operating procedures. Once they are reviewed, they will be approved by the school board.

*Contact Person:* Ms. Marcia Lawton, Interim Superintendent

*Estimated Completion Date:* August 31, 2014

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
**For The Year Ended August 31, 2013**

**V. Corrective Action Plan (continued)**

**Finding # 2013-05 – Investment Policy**

*Response:* New administration will have the current investment policy reviewed and updated. The school board will then accept the policy and it will at that time be implemented.

*Contact Person:* Ms. Marcia Lawton, Interim Superintendent

*Estimated Completion Date:* August 31, 2014

**Finding # 2013-06 – Expenditures in Excess of Appropriations**

*Response:* With the new administration budget amendment will be presented to the school board for action and then the budget amendments will be updated in the financial software.

*Contact Person:* Ms. Marcia Lawton, Interim Superintendent

*Estimated Completion Date:* August 31, 2014

**Finding # 2013-07 – State Mandated Program Spending Requirement**

*Response:* The new administration will monitor expense to ensure that minimum amounts are spent. The new business manager will have to review all of the summary of finances as well to ensure that the most accurate data is being used.

*Contact Person:* Ms. Marcia Lawton, Interim Superintendent

*Estimated Completion Date:* August 31, 2014

**Finding # 2013-08 – Competitive Procurement Procedures**

*Response:* The new business manager will ensure that procurement laws are followed and that all documentation is kept appropriately.

*Contact Person:* Ms. Marcia Lawton, Interim Superintendent

*Estimated Completion Date:* August 31, 2014

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
*For The Year Ended August 31, 2013*

**V. Corrective Action Plan (continued)**

**Finding # 2013-09 – Title I Part A – Payroll**

*Response:* The business manager will work closer with the HR director to ensure that all of the appropriate documentation is being maintained for each employee. This will be for all employees but careful attention will be made especially for all employees paid out of federal monies.

*Contact Person:* Ms. Marcia Lawton, Interim Superintendent

*Estimated Completion Date:* August 31, 2014

**Finding # 2013-10 – ESEA, Title I Part A – Cash Management**

*Response:* The business office along with the superintendent will create and implement a cash management policy.

*Contact Person:* Ms. Marcia Lawton, Interim Superintendent

*Estimated Completion Date:* August 31, 2014

**Finding # 2013-11 – ESEA, Title I Part A – Eligibility**

*Response:* The business office will have to work closer with the federal programs director to ensure that all students who are eligible are recognized and documented. They will also have to ensure that students who are not eligible are not included.

*Contact Person:* Ms. Marcia Lawton, Interim Superintendent

*Estimated Completion Date:* August 31, 2014

**Finding # 2013-12 – ESEA, Title I Part A – Procurement and Suspension and Debarment**

*Response:* The business office will work close with the federal program director to ensure that this requirement is being met.

*Contact Person:* Ms. Marcia Lawton, Interim Superintendent

*Estimated Completion Date:* August 31, 2014

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
*For The Year Ended August 31, 2013*

**V. Corrective Action Plan (continued)**

**Finding # 2013-13 – ESEA, Title I Part A – Reporting**

*Response:* The business office will work close with the federal programs director to ensure that all compliances are being met.

*Contact Person:* Ms. Marcia Lawton, Interim Superintendent

*Estimated Completion Date:* August 31, 2014

**Finding # 2013-14 – ESEA, Title I Part A – Special Tests and Provisions: Participation of Private School Children**

*Response:* The business office will work close with the federal programs director to ensure that all compliances are being met.

*Contact Person:* Ms. Marcia Lawton, Interim Superintendent

*Estimated Completion Date:* August 31, 2014

**Finding # 2013-15 – Child Nutrition Cluster – Eligibility**

*Response:* The business office will work closer with the Director of Food Service in order to ensure that all applications are filled out completely, and that all eligible students are fed.

*Contact Person:* Mr. Floyd Richard, Director of Operations

*Estimated Completion Date:* August 31, 2014

**Finding # 2013-16 – Child Nutrition Cluster – Procurement and Suspension and Debarment**

*Response:* The Business Office will work closer with the Director of Food Service in order to make sure that this is being done and documented.

*Contact Person:* Ms. Marcia Lawton, Interim Superintendent

*Estimated Completion Date:* August 31, 2014

**Finding # 2013-17 – Child Nutrition Cluster – Program Income**

*Response:* The Director of Operations will work close with the Food Service department in order to insure that this is being done and documented.

*Contact Person:* Mr. Floyd Richard, Director of Operations

*Estimated Completion Date:* August 31, 2014

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)**  
*For The Year Ended August 31, 2013*

**V. Corrective Action Plan (continued)**

**Finding # 2013-18 – Child Nutrition Cluster – Special Tests and Provisions: Verification of Free and Reduced Price Applications (NSLP)**

*Response:* The Director of Operations will work closely with the Food Service Director to ensure that all applications that have to be verified are, and that there is documentation to reflect such.

*Contact Person:* Mr. Floyd Richard, Director of Operations

*Estimated Completion Date:* August 31, 2014

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
*For the Year Ended August 31, 2013*

*Exhibit K-1*

(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass Through Entity Identifying Number	(3) Federal Expenditures
<b>U.S. Department of Education</b>			
<b>Passed Through State Department of Education:</b>			
<i>ESEA, Title I, Part A</i>	84.010A	13610101237902	\$ 552,846
<i>IDEA - Part B, Formula*</i>	84.027A	136600012379026000	290,893
<i>IDEA - Part B, Preschool*</i>	84.173A	136610012379026000	4,512
<i>Career and Technical Basic - Grant</i>	84.048A	13420006237902	18,402
<i>ESEA, Title II, Part A - Teacher &amp; Principal Training &amp; Recruiting</i>	84.367A	13694501237902	67,129
<i>ESEA Title III, Part A, English Language Acquisition</i>	84.365A	13671001237902	32,831
<i>Title VI, Part A - Summer School LEP</i>	84.369A	69551202	5,013
<b>Total U.S. Department of Education</b>			<u>971,626</u>
<b>U.S. Department of Agriculture</b>			
<b>Passed Through State Department of Education:</b>			
<b>Cash assistance</b>			
<i>National School Breakfast Program**</i>	10.553	71401301	130,843
<i>National School Lunch Program**</i>	10.555	71301301	436,867
<b>Non-cash assistance</b>			
<i>Commodity Program**</i>	10.555	CE # 01113	34,025
<b>Total U.S. Department of Agriculture</b>			<u>601,735</u>
<b>U.S. Department of Transportation</b>			
<b>Federal Highway Administration (FHWA):</b>			
<i>Highway Research and Development Program - GAMTTEP</i>	20.200	DTFH61-08-G-00028	90,517
<b>Total U.S. Department of Transportation</b>			<u>90,517</u>
<b>Total Expenditures of Federal Awards</b>			<u>\$ 1,663,878</u>

\* Special Education Cluster (IDEA)

\*\* Child Nutrition Cluster

**Note 1 -Basis of Accounting**

The District accounts for all awards under federal programs in the General and Special Revenue Fund in accordance with the Texas Education Agency's *Financial Accountability System Resource Guide*. These programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current assets.

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources. Expenditures are recognized following the cost principles contained in OMB Circular A-87, Cost Principles for State, Local and Indian Tribal Governments, wherein certain types of expenditures are not allowable or are limited to reimbursement. Pass-through entity identifying numbers are presented where available.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such amounts are received, they are recorded as unearned revenues until earned. Generally, unused balances are returned to the grantor at the close of specified project periods.

**Note 2 - Basis of Presentation**

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2013. The information in this schedule is presented in accordance with the requirements of the Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Government, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

**Note 3 - Reconciliation to Basic Financial Statements**

The following is a reconciliation of expenditures of federal awards program per Exhibit K-1 and expenditures reported on Exhibit C-3:

Federal Program Revenues (Per Exhibit C-3)	\$	1,943,686
SHARS		(279,808)
Total Federal Awards on Exhibit K-1	\$	<u>1,663,878</u>

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT**

*Exhibit L-1*

*Required Responses*

*August 31, 2013*

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls?	Yes
SF9	Was there any disclosure in the Annual Financial Report of material noncompliance?	Yes
SF	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end	<u>\$ 926,164</u>

**DO NOT PRINT**