

**HEMPSTEAD
INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

**For The Year Ended August 31, 2014
with Report of Independent Auditors**

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
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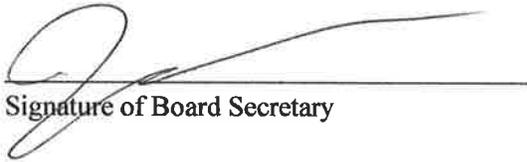
CERTIFICATE OF THE BOARD

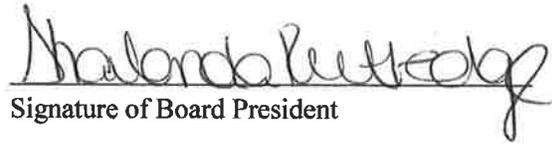
Hempstead Independent School District
Name of School District

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, 2014, at a meeting of the board of trustees of such school district on January 12, 2015.


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, 2014, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements as listed in the table of contents.

Management’s Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this 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 perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

To the Board of Trustees
Hempstead Independent School District

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, 2014, 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.

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 6 through 12 and Budgetary Comparison Schedule – General fund on pages 41 through 42 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.

To the Board of Trustees
Hempstead Independent School District

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 7, 2015 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
January 7, 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Hempstead Independent School District's (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2014. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which begin on page 14.

Financial Highlights

- The District's total combined net position at year end was \$4,422,667.
- For the year, the District's general fund reported a total fund balance of \$2,267,432, all of which was unassigned.
- At the end of the year, the District's governmental funds (the general fund plus all special revenue funds, the debt service fund, and the capital projects fund) reported combined ending fund balances of \$2,802,025.

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.

Fund Financial Statements

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

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

The District has 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)

Government-Wide Financial Analysis

The government-wide financial statements for the District's overall financial position and operations for fiscal years August 31, 2014 and August 31, 2013, are summarized as follows, based on the information included in the government-wide financial statements.

The District's total assets exceeded total liabilities by \$4,422,667 as of August 31, 2014, an increase of \$1,129,257 over August 31, 2013. The District's total unrestricted net position of \$2,906,037 and net position invested in capital assets of \$1,144,236, as of August 31, 2014.

Significant fluctuations from year to year include an increase in cash and cash equivalents, due to the increased revenues outlined in the discussion of operations on the next page, a decrease in capital assets due to depreciation expenses, and a planned reduction in long-term debt of \$1.3 million or 6%.

Hempstead Independent School District's Net Position

	Governmental Activities		\$ change	% change
	2014	2013		
Assets				
Cash and cash equivalents	\$ 3,758,553	\$ 2,794,550	\$ 964,003	34%
Other assets	957,077	934,932	22,145	2%
Capital assets less accumulated depreciation	20,463,891	21,357,364	(893,473)	-4%
Total Assets	25,179,521	25,086,846	92,675	0%
Liabilities				
Current liabilities	1,119,089	966,361	152,728	16%
Long term liabilities	19,637,765	20,827,075	(1,189,310)	-6%
Total Liabilities	20,756,854	21,793,436	(1,036,582)	-5%
Net Position				
Net investment in capital assets	1,144,236	810,396	333,840	41%
Restricted	372,394	208,185	164,209	79%
Unrestricted	2,906,037	2,274,829	631,208	28%
Total Net Position	\$ 4,422,667	\$ 3,293,410	\$ 1,129,257	34%

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

The District's net position increased by \$1,129,257 during the year, due primarily to increases in State Aid revenue and property tax revenues. These increases were the result of higher property values and collection rates of ad valorem taxes, along with additional State Aid formula payments due to higher enrollment. Expenses increased by \$ 438,366 , a 3% increase, with the largest increase occurring in the General Administration category, due primarily to severance packages paid to the two previous superintendents. These amounts were somewhat offset by lower interest costs as a result of a reduction in long-term debt.

Hempstead Independent School District's Changes in Net Position

	Governmental Activities		change \$	% change
	2014	2013		
Revenue:				
Program Revenues:				
Charges for services	\$ 308,467	\$ 120,838	\$ 187,629	155%
Operating grants & contributions	2,593,908	2,709,895	(115,987)	-4%
General Revenues:				
Property taxes	6,356,587	6,059,450	297,137	5%
State Aid	7,827,194	7,272,411	554,783	8%
Investment earnings	13,369	9,627	3,742	39%
Other revenue	97,687	163,282	(65,595)	-40%
Total Revenues	17,197,212	16,335,503	861,709	5%
Expenses				
Instruction	8,167,258	8,164,076	3,182	0%
Instructional Resources and Media Services	201,161	196,104	5,057	3%
Curriculum and Staff Development	148,833	173,006	(24,173)	-14%
Instructional Leadership	144,703	163,492	(18,789)	-11%
School Leadership	903,306	774,763	128,543	17%
Guidance, Counseling, and Evaluation Services	420,575	341,735	78,840	23%
Health Services	87,993	106,527	(18,534)	-17%
Student Transportation	646,681	530,766	115,915	22%
Food Services	863,116	699,179	163,937	23%
Extracurricular Activities	712,573	775,133	(62,560)	-8%
General Administration	1,136,172	794,096	342,076	43%
Facilities Maintenance and Operations	1,438,063	1,498,076	(60,013)	-4%
Security and Monitoring Services	177,575	173,330	4,245	2%
Data Processing Services	157,957	119,657	38,300	32%
Community Services	25,287	27,097	(1,810)	-7%
Debt service - interest on long-term debt	713,270	953,051	(239,781)	-25%
Other intergovernmental charges	123,432	139,501	(16,069)	-12%
Total Expenses	16,067,955	15,629,589	438,366	3%
Increase (Decrease) in Net Position	1,129,257	705,914	423,343	60%
Beginning Net Position	3,293,410	2,587,496		
Ending Net Position	\$ 4,422,667	\$ 3,293,410		

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

Governmental Activities

Governmental activities increased the District's net position by \$1,129,257. Key elements of this increase are as follows:

Revenues are generated primarily from two sources. State Aid Formula Grant, operating grants and contributions totaling \$10,421,102 represent 61 percent of total revenues and property taxes of \$6,356,587 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 \$8,167,258, which represents 50.8% of total expenses; plant, maintenance and operations of \$1,438,063 which represents 8.9%; and general administration of \$1,136,172 which represents 7.1%. 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 and the District's debt service property tax rates decreased remained the same. The District's tax assessed valuation increased by approximately 3% percent. The increase in valuation along with an increase in collections of delinquent receivables, resulted in an increase of 5% or in property tax revenue over the prior year.

Financial Analysis of the District's Funds

The fund balance in the general fund increased by \$726,390 or 47% of the prior year balance, despite a \$500,000 transfer out to the Debt Service Fund. Although expenditures exceeded appropriations by \$122,000, revenues exceeded estimates by \$763,000, due to increase in State Aid and property taxes, as discussed earlier. District voters approved an increase of \$0.13 in the Maintenance and Operations tax rate to \$1.17 in May 2012. The increased tax revenues, among other things, is used to fund an annual transfer of \$500,000 to the Debt Service Fund, which allowed the District to decrease the Debt Service tax rate by a similar amount of \$0.13.

The debt service fund balance is 30.7% of expenditures, which increased due primarily to the transfer from the General Fund.

General Fund Budgetary Highlights

During the year, the District amended its General Fund budget as required by State law and to reflect current levels of revenue and anticipated expenditures. The general fund's actual revenues exceeded budgeted revenues by \$763,246 and the actual expenditures exceeded budgeted appropriations by \$121,812.

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

Capital Asset and Debt Administration

Capital Assets

At year end the District had \$20,463,891 invested in a broad range of capital assets, including land, equipment, buildings and vehicles.

	Balance		(Retirements)	Balance
	August 31, 2013	Additions	and Transfers	August 31, 2014
Capital assets, not being depreciated:				
Land	\$ 122,752	\$	\$	\$ 122,752
Total Capital assets, not being depreciated	122,752			122,752
Capital assets, being depreciated:				
Buildings and improvements	27,506,628			27,506,628
Furniture and equipment	3,639,376	69,186		3,708,562
Total Capital assets, being depreciated	31,146,004	69,186		31,215,190
Less accumulated depreciation for:				
Buildings and improvements	(8,544,431)	(735,838)		(9,280,269)
Furniture and Equipment	(1,366,961)	(226,821)		(1,593,782)
Total Accumulated depreciation	(9,911,392)	(962,659)		(10,874,051)
Governmental Capital Assets	\$ 21,357,364	\$ (893,473)	\$	\$ 20,463,891

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

Debt Administration

At year-end the District had \$19,637,765 in long-term debt as shown below:

	Balance			Balance	Amounts
	August 31,	Additions	Retirements	August 31,	Due Within
	2013			2014	One Year
Governmental Activities:					
Bonds payable:					
Series 2005	\$ 5,620,000	\$	\$ 38,097	\$ 5,581,903	\$ 1,903
Series 2007	8,659,480		190,000	8,469,480	200,000
Series 2013	2,815,000		330,000	2,485,000	335,000
	<u>17,094,480</u>		<u>558,097</u>	<u>16,536,383</u>	<u>536,903</u>
Other liabilities:					
Workers Compensation		115,537		115,537	
Loans	1,886,737	39,516	340,939	1,585,314	328,208
Capital leases	794,546		88,332	706,214	130,531
Premiums	125,148		16,958	108,190	
Accreted interest	926,164	36,866	376,903	586,127	423,097
	<u>3,732,595</u>	<u>191,919</u>	<u>823,132</u>	<u>3,101,382</u>	<u>881,836</u>
	<u>\$ 20,827,075</u>	<u>\$ 191,919</u>	<u>\$ 1,381,229</u>	<u>\$ 19,637,765</u>	<u>\$ 1,418,739</u>

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 2015 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 2015 fiscal year (2014 tax year) increased by approximately 5.0%. Estimated total General Fund appropriations and revenues for the 2015 fiscal year are approximately \$13.8 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, 2014

Exhibit A-1

<u>Data Control Codes</u>	<u>Governmental Activities</u>
Assets	
1110 Cash and temporary investments	\$ 2,176,069
1120 Investments	1,582,484
1220 Delinquent property taxes receivables	1,149,605
1230 Allowance for uncollectable taxes (credit)	(287,401)
1240 Due from other governments	91,357
1290 Other receivables (net)	3,516
Capital assets:	
1510 Land	122,752
Capital Assets, net of accumulated depreciation:	
1520 Buildings and improvements, net	18,226,359
1530 Furniture and equipment, net	2,114,780
1000 Total Assets	<u>25,179,521</u>
Liabilities	
2110 Accounts payable	358,830
2140 Interest payable	67,688
2160 Accrued wages payable	516,983
2180 Due to other governments	173,392
2300 Unearned revenue	2,196
Noncurrent Liabilities:	
2501 Due within one year	1,418,739
2502 Due in more than one year	18,219,026
2000 Total Liabilities	<u>20,756,854</u>
Net Position	
3200 Net investment in capital assets	1,144,236
Restricted for:	
3850 Debt service	372,394
3900 Unrestricted	2,906,037
3000 Total Net Position	<u>\$ 4,422,667</u>

See Notes to the Financial Statements

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2014

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
Governmental activities:					
11	Instruction	\$ 8,167,258	\$ 207,191	\$ 1,182,923	\$ (6,777,144)
	Instructional Resources and Media				
12	Services	201,161		7,761	(193,400)
13	Curriculum and Staff Development	148,833		18,380	(130,453)
21	Instructional Leadership	144,703		5,702	(139,001)
23	School Leadership	903,306		46,119	(857,187)
	Guidance, Counseling, and Evaluation				
31	Services	420,575		22,820	(397,755)
33	Health Services	87,993		277,034	189,041
34	Student Transportation	646,681		21,374	(625,307)
35	Food Services	863,116	71,021	685,790	(106,305)
36	Extracurricular Activities	712,573	28,035	20,475	(664,063)
41	General Administration	1,136,172		38,000	(1,098,172)
51	Facilities maintenance and operations	1,438,063	2,220	35,457	(1,400,386)
52	Security and Monitoring Services	177,575		7,539	(170,036)
53	Data Processing Services	157,957		5,791	(152,166)
61	Community Services	25,287		6,092	(19,195)
71	Interest on Long-term Debt	713,270		212,651	(500,619)
99	Other Intergovernmental Charges	123,432			(123,432)
TG	Total governmental activities	16,067,955	308,467	2,593,908	(13,165,580)
TP	Total primary government	\$ 16,067,955	\$ 308,467	\$ 2,593,908	\$ (13,165,580)
General revenues:					
Taxes:					
MT	Property taxes, levied for general purposes				5,379,582
DT	Property taxes, levied for debt service				977,005
SF	State-aid formula grants				7,827,194
IE	Investment earnings				13,369
MI	Miscellaneous				97,687
TR	Total general revenues				14,294,837
CN	Change in net position				1,129,257
NB	Net position - beginning				3,293,410
NE	Net position - ending				\$ 4,422,667

See Notes to the Financial Statements

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
August 31, 2014

Exhibit C-1

<u>Data Control Codes</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Assets				
1110 Cash and cash equivalents	\$ 1,348,591	\$ 724,395	\$ 103,083	\$ 2,176,069
1120 Investments	1,582,482		2	1,582,484
Receivables:				
1220 Delinquent property taxes receivables	940,953	208,652		1,149,605
1230 Allowance for uncollectible taxes (credit)	(235,238)	(52,163)		(287,401)
1240 Receivables from other governments	63,523	12,232	15,602	91,357
1260 Due from other funds	246,881			246,881
1290 Other receivables	3,516			3,516
1000 Total Assets	<u>\$ 3,950,708</u>	<u>\$ 893,116</u>	<u>\$ 118,687</u>	<u>\$ 4,962,511</u>
Liabilities, Deferred Inflows and Fund Balance				
Liabilities:				
2110 Accounts payable	\$ 297,810	\$	\$ 61,020	\$ 358,830
2160 Accrued wages payable	516,983			516,983
2170 Due to other funds		239,837	7,044	246,881
2180 Due to State	162,768	10,624		173,392
2300 Unearned revenues			2,196	2,196
2000 Total Liabilities	<u>977,561</u>	<u>250,461</u>	<u>70,260</u>	<u>1,298,282</u>
Deferred Inflows of Resources				
2600 Unavailable revenue - property taxes	705,715	156,489		862,204
Total Deferred Inflows of Resources	<u>705,715</u>	<u>156,489</u>		<u>862,204</u>
Fund Balance:				
Restricted for:				
3480 Debt service		486,166		486,166
Committed for:				
3545 Other Purposes			49,352	49,352
3600 Unassigned	2,267,432		(925)	2,266,507
3000 Total fund balances	<u>2,267,432</u>	<u>486,166</u>	<u>48,427</u>	<u>2,802,025</u>
4000 Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 3,950,708</u>	<u>\$ 893,116</u>	<u>\$ 118,687</u>	<u>\$ 4,962,511</u>

See Notes to the Financial Statements.

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF BALANCE SHEET FOR GOVERNMENTAL FUNDS TO
STATEMENT OF NET POSITION
August 31, 2014

Exhibit C-2

<u>Data Control Codes</u>		
	Total fund balance, governmental funds	\$ 2,802,025
	Amounts reported for governmental activities in the statement of net position (A-1) are different because:	
1	Capital assets, net of depreciation, used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	20,463,891
2	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).	862,204
3	Interest payable on long-term liabilities, is due within a year, but is not included in the fund financial statements.	(67,688)
	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:	
4	General obligation bonds	(16,536,383)
5	Loans payable	(1,585,314)
6	Capital leases payable	(706,214)
7	Premium on issuance	(108,190)
8	Accreted interest on capital appreciation bonds	(586,127)
9	Workers Compensation Long Term Liability	(115,537)
19	Total net position - governmental activities	<u>\$ 4,422,667</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, 2014

Exhibit C-3

Data Control Codes		General Fund	Debt Service Funds	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
5700	Local, intermediate, and out-of-state	\$ 5,650,754	\$ 1,007,316	\$ 168,681	\$ 6,826,751
5800	State program revenues	8,443,116	212,651	46,544	8,702,311
5900	Federal program revenues	278,716		1,440,075	1,718,791
5020	Total revenues	<u>14,372,586</u>	<u>1,219,967</u>	<u>1,655,300</u>	<u>17,247,853</u>
Expenditures					
Current:					
0011	Instruction	6,801,519		810,386	7,611,905
0012	Instructional resources and media services	160,884		1,168	162,052
0013	Curriculum and instructional staff development	128,522		18,659	147,181
0021	Instructional leadership	143,457			143,457
0023	School leadership	852,558		1,546	854,104
0031	Guidance, counseling and evaluation services	416,756			416,756
0033	Health services	85,432			85,432
0034	Student transportation	579,185			579,185
0035	Food services			777,768	777,768
0036	Extracurricular activities	537,900		45,070	582,970
0041	General administration	1,090,188			1,090,188
0051	Facilities maintenance and operations	1,407,060		3,705	1,410,765
0052	Security and monitoring services	182,177			182,177
0053	Data processing services	153,236			153,236
0061	Community services	20,367		4,700	25,067
Debt service:					
0071	Principal on long-term debt	429,271	558,097		987,368
0072	Interest on long-term debt	73,768	1,023,169		1,096,937
0073	Debt issuance costs and fees		1,650		1,650
Intergovernmental:					
0099	Other intergovernmental charges	123,432			123,432
6030	Total Expenditures	<u>13,185,712</u>	<u>1,582,916</u>	<u>1,663,002</u>	<u>16,431,630</u>
1100	Excess (deficiency) of revenues over expenditures	<u>1,186,874</u>	<u>(362,949)</u>	<u>(7,702)</u>	<u>816,223</u>
Other Financing Sources (Uses)					
7914	Loan proceeds	39,516			39,516
7915	Transfers in		500,000		500,000
8911	Transfers out	(500,000)			(500,000)
7080	Total other financing sources (uses)	<u>(460,484)</u>	<u>500,000</u>		<u>39,516</u>
1200	Net change in fund balance	726,390	137,051	(7,702)	855,739
0100	Fund Balance - beginning	<u>1,541,042</u>	<u>349,115</u>	<u>56,129</u>	<u>1,946,286</u>
3000	Fund Balance - ending	<u>\$ 2,267,432</u>	<u>\$ 486,166</u>	<u>\$ 48,427</u>	<u>\$ 2,802,025</u>

See Notes to the Financial Statements.

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
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, 2014

Exhibit C-4

<u>Data Control Codes</u>		
	Net change in fund balances - total governmental funds (from C-3)	\$ 855,739
	Amounts reported for governmental activities in the statement of activities (B-1) are different	
1	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 \$ 69,186 Governmental activities depreciation expense <u>(962,659)</u>	 (893,473)
2	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(50,641)
3	Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	558,097
4	Repayment of loans payable is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	340,939
5	Repayment of capital leases is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	88,332
6	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. Loan proceeds	 (39,516)
7	Amortization of premium/discount on bond issuance	16,958
8	Change in accreted interest on capital appreciation bonds	340,037
9	Decrease in interest payable not recognized in fund statements	28,322
10	Increase in workers Compensation Long Term Liability not recognized in fund statements	(115,537)
	Change in net position of governmental activities (see B-1)	<u><u>\$ 1,129,257</u></u>

See Notes to the Financial Statements.

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
August 31, 2014

Exhibit E-1

	829	865
	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
	<u>Scholarship Fund</u>	<u>Student Activity</u>
Assets		
Cash and cash equivalents	\$ 11,721	\$ 23,346
Total Assets	<u>\$ 11,721</u>	<u>\$ 23,346</u>
Liabilities		
Due to student groups		\$ 23,346
Total Liabilities		<u>\$ 23,346</u>
Net Position		
Held in Trust	11,721	
Total Net Position	<u>\$ 11,721</u>	

See Notes to the Financial Statements.

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended August 31, 2014

Exhibit E-2

	<u>Private Purpose Trust Fund Scholarship Fund</u>
Additions	
Interest Income	\$ 4,662
Total additions	<u>4,662</u>
Deductions	
Scholarships awarded	<u>1,200</u>
Total deductions	<u>1,200</u>
Change in net position	3,462
Beginning net position	<u>8,259</u>
Ending net position	<u><u>\$ 11,721</u></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)

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, 2014. 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.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

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

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 2014 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

Note 1 - Summary of Significant Accounting Policies (continued)

Fund Equity (continued)

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 2014 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.

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, 2014.

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:

	Fair Market Value	Weighted Average Maturity (Days)	Rating
Cash and deposits:			
Governmental activities	\$ 2,176,069	N/A	N/A
Fiduciary funds	35,067	N/A	N/A
Total cash and deposits	<u>2,211,136</u>		
Investments:			
Lone Star	728,437	49	AAA
TexSTAR	854,047	52	AAAm
Total Investments	<u>1,582,484</u>	51	
 Total Cash and Investments	 <u>\$ 3,793,620</u>		

Note 3 - Receivables

Receivables as of August 31, 2014 for the District's individual major and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Debt Service Funds	Nonmajor Governmental Funds	Total
Property Taxes	\$ 940,953	\$ 208,652	\$ 15,602	\$ 1,149,605
Due from other governments	63,523	12,232	15,602	91,357
Other	3,516			3,516
Gross Receivables	<u>1,007,992</u>	<u>220,884</u>	<u>15,602</u>	<u>1,244,478</u>
Less allowance for doubtful accounts	(235,238)	(52,163)		(287,401)
Net Total Receivables	<u>\$ 772,754</u>	<u>\$ 168,721</u>	<u>\$ 15,602</u>	<u>\$ 957,077</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, 2014, 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.

The composition of interfund balances as of August 31, 2014, is as follows:

	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
General Fund	\$ 246,881	\$
Debt Service Fund		239,837
Nonmajor Governmental Funds		7,044
	<u>\$ 246,881</u>	<u>\$ 246,881</u>

The composition of interfund transfers for the year ended August 31, 2014, is as follows:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Debt Service Fund	\$ 500,000	budgeted debt service requirements

Note 5 - Capital Assets

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

	<u>Balance August 31, 2013</u>	<u>Additions</u>	<u>(Retirements) and Transfers</u>	<u>Balance August 31, 2014</u>
Capital assets, not being depreciated:				
Land	\$ 122,752	\$	\$	\$ 122,752
Total Capital assets, not being depreciated	<u>122,752</u>			<u>122,752</u>
Capital assets, being depreciated:				
Buildings and improvements	27,506,628			27,506,628
Furniture and equipment	3,639,376	69,186		3,708,562
Total Capital assets, being depreciated	<u>31,146,004</u>	<u>69,186</u>		<u>31,215,190</u>
Less accumulated depreciation for:				
Buildings and improvements	(8,544,431)	(735,838)		(9,280,269)
Furniture and Equipment	(1,366,961)	(226,821)		(1,593,782)
Total Accumulated depreciation	<u>(9,911,392)</u>	<u>(962,659)</u>		<u>(10,874,051)</u>
Governmental Capital Assets	<u>\$ 21,357,364</u>	<u>\$ (893,473)</u>	<u>\$</u>	<u>\$ 20,463,891</u>

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	\$ 479,858
Instructional resources and media services	37,778
Curriculum and staff development	1,024
School leadership	40,714
Health services	1,688
Student transportation	63,303
Food Services	104,018
Extracurricular activities	125,962
General administration	39,149
Facilities, maintenance and operations	60,419
Security and monitoring services	4,940
Data processing services	3,806
	<u>\$ 962,659</u>

Note 6 - Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2014, was as follows:

	<u>Balance August 31, 2013</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance August 31, 2014</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Bonds payable:					
Series 2005	\$ 5,620,000	\$	\$ 38,097	\$ 5,581,903	\$ 1,903
Series 2007	8,659,480		190,000	8,469,480	200,000
Series 2013	2,815,000		330,000	2,485,000	335,000
	<u>17,094,480</u>		<u>558,097</u>	<u>16,536,383</u>	<u>536,903</u>
Other liabilities:					
Workers Compensation		115,537		115,537	
Loans	1,886,737	39,516	340,939	1,585,314	328,208
Capital leases	794,546		88,332	706,214	130,531
Premiums	125,148		16,958	108,190	
Accreted interest	926,164	36,866	376,903	586,127	423,097
	<u>3,732,595</u>	<u>191,919</u>	<u>823,132</u>	<u>3,101,382</u>	<u>881,836</u>
	<u>\$ 20,827,075</u>	<u>\$ 191,919</u>	<u>\$ 1,381,229</u>	<u>\$ 19,637,765</u>	<u>\$ 1,418,739</u>

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.

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

Exhibit F-1

Note 6 - Long-Term Liabilities (continued)

General obligation bonds outstanding at August 31, 2014, 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	\$ 5,581,903
Unlimited Tax School Building Bonds, Series 2007	9,399,480	5%	2037	8,469,480
Unlimited Tax Refunding Bonds, Series 2013	3,110,000	1.50% - 2.00%	2021	2,485,000
				<u>\$ 16,536,383</u>

Loans outstanding at August 31, 2014, are as follows:

<u>Loans</u>	<u>Purpose of the Loan</u>	<u>Original Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Outstanding Loans</u>
Maintenance Tax Note, Series 2013A	Finance District expenditures	\$ 467,052	2.99%	2018	\$ 371,013
Maintenance Tax Note, Series 2013B	Finance District expenditures	779,416	2.79%	2023	696,655
Technology Loan	Finance District expenditures	709,823	3.29%	2016	439,825
Public Property Finance Act Contract No. 6160	Capital assets acquisition	63,202	5.24%	2016	48,184
Loan No. 8216048	Capital assets acquisition	39,516	2.89%	2016	29,637
					<u>\$ 1,585,314</u>

A portion of the bonds sold in the Series 2005 and the Series 2007 bond issues were capital appreciation bonds commonly referred to as “premium compound interest bonds.” The District annually records the appreciation of the bond principal for the accreted value of the bonds through maturity of the issue. The interest of these bonds series will be paid upon maturity. The following table summarizes the significant features of the individual bonds, by issue:

<u>Series</u>	<u>Accreted Value</u>	<u>Principal</u>	<u>Accreted Interest</u>	<u>Maturity Value</u>	<u>Maturity Dates</u>
2005	419,050	5,000	414,050	805,000	2014 and 2015
2007	271,557	99,480	172,077	375,000	2022
			<u>586,127</u>		

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

Exhibit F-1

Note 6 - Long-Term Liabilities (continued)

Annual debt service requirements to maturity for the District's bonds payable and other long-term debt outstanding as of August 31, 2014, are as follows:

Year Ending August 31,	Bonds Payable		Loans Payable	
	Principal	Interest	Principal	Interest
2015	\$ 536,903	\$ 1,047,314	\$ 328,208	\$ 48,012
2016	955,000	605,842	338,221	37,999
2017	995,000	571,692	338,663	27,218
2018	1,035,000	537,092	172,007	16,382
2019	1,060,000	502,392	77,211	11,389
2020	1,105,000	466,179	79,365	9,235
2021	1,140,000	428,135	81,580	7,020
2022	799,480	666,524	83,856	4,744
2023	830,000	360,404	86,203	2,405
2024	865,000	326,071		
2025	910,000	289,535		
2026	965,000	250,467		
2027	390,000	222,012		
2028	405,000	205,317		
2029	425,000	187,780		
2030	440,000	169,398		
2031	460,000	150,273		
2032	480,000	130,058		
2033	500,000	108,743		
2034	525,000	86,450		
2035	545,000	63,110		
2036	570,000	38,719		
2037	600,000	13,125		
	<u>\$ 16,536,383</u>	<u>\$ 7,426,632</u>	<u>\$ 1,585,314</u>	<u>\$ 164,404</u>

Note 7 - Capital and Operating Leases

Capital Leases

The District has an outstanding capital lease for an energy management system as of August 31, 2014.

The future minimum lease obligations and the net present value of these minimum lease payments as of August 31, 2014 were as follows:

<u>Year Ending August 31,</u>	<u>Governmental Activities</u>
2015	\$ 130,531
2016	130,531
2017	130,530
2018	130,530
2019	130,530
2020	130,530
2021	66,953
Total minimum lease payments	850,135
Less: amount representing interest	(143,921)
Present value of minimum lease payments	<u>\$ 706,214</u>

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>	
2015	\$ 111,128
2016	71,088
2017	71,088
2018	71,088
2019	46,375
Total	<u>\$ 370,767</u>

Rent expenditures were \$137,365 for the year ended August 31, 2014 .

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:

	<u>General Fund</u>	<u>Debt Service Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Property Taxes	\$ 5,401,527	\$ 1,005,701	\$	\$ 6,407,228
Investment Income	10,081	1,615	18	11,714
Food Sales			71,021	71,021
Other	239,146		97,642	336,788
	<u>\$ 5,650,754</u>	<u>\$ 1,007,316</u>	<u>\$ 168,681</u>	<u>\$ 6,826,751</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, 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 years 2014, 2013 and 2012, and a state contribution rate of 6.8% for fiscal year 2014 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.

Contributions

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 6.8% for fiscal year 2014, 6.4% for fiscal year 2013, and 6.0% for fiscal year 2012.

Contributions made by the State, District and staff members for the years ended August 31, 2014, 2013, and 2012, are as follows:

Fiscal Year	State TRS Contributions Made on Behalf of the District	District Required Contributions to TRS	Staff Members Contributions to TRS	District's Annual Covered Payroll
2014	\$ 497,765	\$ 106,837	\$ 569,085	\$ 8,891,203
2013	409,438	131,292	540,730	8,448,900
2012	463,647	120,844	539,875	8,435,541

Note 9 - Defined Benefit Pension Plan (continued)

For the current fiscal year and each of the prior two fiscal 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.

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, under the TRS Publications heading.

The Texas Legislature determines the funding of benefits and has no continuing obligation to provide benefits beyond each fiscal year. Currently, the benefits of TRS-Care are financed through a combination of retiree premiums and percentage of payroll contributions from active employees, school districts, and the State of Texas.

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 1.00% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2014, 2013 and 2012. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 1.00%.

Contributions made by the State, District and staff members for the years ended August 31, 2014, 2013, and 2012, are as follows:

Fiscal Year	State TRS Care Contributions Made on Behalf of the District	District Required Contributions to TRS Care	Staff Contributions to TRS Care	District's Annual Covered Payroll
2014	\$ 81,649	\$ 56,127	\$ 57,795	\$ 8,891,203
2013	38,641	50,781	54,918	8,448,900
2012	77,952	46,396	54,831	8,435,541

Note 10 - Retiree Health Plan (continued)

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, 2014, 2013 and 2012, the subsidy payments received by TRS-Care on behalf of the District were \$22,141, \$21,844, and \$21,891, 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 fiscal years ended August 31, 2014 and 2013, the District did not receive a payment under this program; for fiscal year ended August 31, 2012, the payment received under this program on-behalf of the District was \$20,702.

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, 2013 to August 31, 2014 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 - Deficit Fund Balance

The child nutrition fund had a deficit fund balance of \$925. The District plans to eliminate this deficit balance through future operations.

REQUIRED SUPPLEMENTARY INFORMATION

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HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended August 31, 2014

Exhibit G-1

Data Control Codes		Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
		Original	Final		
		Revenues			
5700	Local and intermediate sources	\$ 5,138,246	\$ 5,138,246	\$ 5,650,754	\$ 512,508
5800	State program revenues	8,291,094	8,291,094	8,443,116	152,022
5900	Federal program revenues	180,000	180,000	278,716	98,716
5020	Total revenues	<u>13,609,340</u>	<u>13,609,340</u>	<u>14,372,586</u>	<u>763,246</u>
Expenditures					
Current:					
0011	Instruction	7,031,567	6,380,567	6,801,519	(420,952) *
0012	Instructional resources and media services	170,831	170,831	160,884	9,947
0013	Curriculum and instructional staff development	76,623	149,623	128,522	21,101
0021	Instructional leadership	160,937	170,937	143,457	27,480
0023	School leadership	788,540	853,540	852,558	982
0031	Guidance, counseling and evaluation services	365,821	425,821	416,756	9,065
0033	Health services	113,395	113,395	85,432	27,963
0034	Student transportation	521,525	601,525	579,185	22,340
0036	Extracurricular activities	641,706	641,706	537,900	103,806
0041	General administration	597,873	902,873	1,090,188	(187,315) *
0051	Facilities maintenance and operations	1,638,424	1,621,424	1,407,060	214,364
0052	Security and monitoring services	180,030	191,030	182,177	8,853
0053	Data processing services	130,197	167,197	153,236	13,961
0061	Community services	32,011	32,011	20,367	11,644
Debt Service:					
0071	Principal on long-term debt	305,920	393,920	429,271	(35,351)
0072	Interest on long-term debt	89,500	124,500	73,768	50,732
Intergovernmental:					
0099	Other intergovernmental charges	121,000	123,000	123,432	(432) *
6030	Total Expenditures	<u>12,965,900</u>	<u>13,063,900</u>	<u>13,185,712</u>	<u>(121,812)</u>
1100	Excess (deficiency) of revenues over expenditures	<u>643,440</u>	<u>545,440</u>	<u>1,186,874</u>	<u>641,434</u>
Other Financing Sources (Uses)					
7914	Loan proceeds			39,516	39,516
8911	Transfers Out	(500,000)	(500,000)	(500,000)	
7080	Total other financing sources and uses	<u>(500,000)</u>	<u>(500,000)</u>	<u>(460,484)</u>	<u>39,516</u>
1200	Net change in fund balances	143,440	45,440	726,390	680,950
0100	Fund balances - beginning	<u>1,541,042</u>	<u>1,541,042</u>	<u>1,541,042</u>	
3000	Fund balances - ending	<u>\$ 1,684,482</u>	<u>\$ 1,586,482</u>	<u>\$ 2,267,432</u>	<u>\$ 680,950</u>

* Expenditures exceeding appropriation at the function level.

Budgets and Budgetary Accounting

The District adopts annual appropriations type budgets for the General Fund, the Debt Service Fund, and the Child Nutrition Program Fund using the same method of accounting as for financial reporting, as required by law. The General Fund Budget appears on Exhibit G-1, 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 and the Child Nutrition Program Fund during the fiscal year ended August 31, 2014.

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, 2013. 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 year ended August 31, 2014, the expenditures exceeded appropriations in the General Fund, Child Nutrition Fund and Debt Service Fund in several functions (the legal level of compliance) as indicated by an asterisk (*) in the aforementioned schedules. Overall the district operated with a positive budget variance in the General Fund and the Debt Service Fund and the district operated with a negative budget variance in the Child Nutrition Fund.

OTHER SUPPLEMENTARY INFORMATION

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
August 31, 2014

Data Control Codes		211	224	225
		ESEA Title I, Part A - Improving Basic Programs	IDEA, Part B - Formula	IDEA, Part B - Preschool
	Assets			
1110	Cash and temporary investments	\$	\$	\$
1120	Investments			
1240	Receivables from other governments	1,199		
1000	Total Assets	<u>\$ 1,199</u>	<u>\$</u>	<u>\$</u>
	Liabilities and Fund Balance			
	Liabilities:			
2110	Accounts payable	\$	\$	\$
2170	Due to other funds	1,199		
2300	Unearned revenues			
2000	Total Liabilities	<u>1,199</u>	<u></u>	<u></u>
	Fund Balance:			
	Committed for:			
3590	Other Purposes			
3600	Unassigned			
3000	Total Fund Balances	<u></u>	<u></u>	<u></u>
4000	Total Liabilities and Fund Balance	<u>\$ 1,199</u>	<u>\$</u>	<u>\$</u>

240	244	255	263	404	410
<u>Child Nutrition Program</u>	<u>Career and Technical - Basic Grant</u>	<u>Title II, Part A - Teacher & Principal</u>	<u>Title III, Part A - LEP</u>	<u>Student Success Initiative</u>	<u>Instructional Materials Allotment</u>
\$ 47,727	\$	\$	\$ 105	\$	\$
12,368	1,471	441	123		
<u>\$ 60,095</u>	<u>\$ 1,471</u>	<u>\$ 441</u>	<u>\$ 228</u>	<u>\$</u>	<u>\$</u>
\$ 61,020	\$ 1,471	\$ 441	\$ 228	\$	\$
<u>61,020</u>	<u>1,471</u>	<u>441</u>	<u>228</u>		
(925)					
<u>(925)</u>					
<u>\$ 60,095</u>	<u>\$ 1,471</u>	<u>\$ 441</u>	<u>\$ 228</u>	<u>\$</u>	<u>\$</u>

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HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
August 31, 2014

Exhibit H-1
page 2 of 2

Data Control Codes	461	499	699		
	Campus Activity Funds	Locally Funded Special Revenue Fund	Capital Projects Funds	Total Nonmajor Governmental Funds	
Assets					
1110	Cash and temporary investments	\$ 49,352	\$ 2,196	\$ 3,703	\$ 103,083
1120	Investments			2	2
1240	Receivables from other governments				15,602
1000	Total Assets	<u>\$ 49,352</u>	<u>\$ 2,196</u>	<u>\$ 3,705</u>	<u>\$ 118,687</u>
Liabilities and Fund Balance					
Liabilities:					
2110	Accounts payable	\$	\$	\$	\$ 61,020
2170	Due to other funds			3,705	7,044
2300	Unearned revenues		2,196		2,196
2000	Total Liabilities		<u>2,196</u>	<u>3,705</u>	<u>70,260</u>
Fund Balance:					
Committed for:					
3545	Other Purposes	49,352			49,352
3600	Unassigned				(925)
3000	Total Fund Balances	<u>49,352</u>			<u>48,427</u>
4000	Total Liabilities and Fund Balance	<u>\$ 49,352</u>	<u>\$ 2,196</u>	<u>\$ 3,705</u>	<u>\$ 118,687</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, 2014

Data Control Codes		211 ESEA Title I, Part A - Improving Basic Programs	224 IDEA, Part B - Formula	225 IDEA, Part B - Preschool
Revenues				
5700	Local, intermediate, and out-of-state	\$	\$	\$
5800	State program revenues			
5900	Federal program revenues	414,561	253,150	3,844
5020	Total revenues	<u>414,561</u>	<u>253,150</u>	<u>3,844</u>
Expenditures				
Current:				
0011	Instruction	399,343	249,159	3,844
0012	Instruction resources and media services			
0013	Curriculum and instructional staff development	10,518	3,991	
0023	School leadership			
0035	Food services			
0036	Extracurricular activities			
0051	operations			
0061	Community services	4,700		
6030	Total Expenditures	<u>414,561</u>	<u>253,150</u>	<u>3,844</u>
1200	Net change in fund balances			
0100	Fund Balance - beginning			
3000	Fund Balance - ending	<u>\$</u>	<u>\$</u>	<u>\$</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, 2014

Exhibit H-2
page 2 of 2

Data Control Codes		461 Campus Activity Funds	499 Locally Funded Special Revenue Fund	699 Capital Projects Funds	Total Nonmajor Governmental Funds
	Revenues				
5700	Local, intermediate, and out-of-state	\$ 97,642	\$	\$ 18	\$ 168,681
5800	State program revenues				46,544
5900	Federal program revenues				1,440,075
5020	Total revenues	97,642	\$	18	1,655,300
	Expenditures				
	Current:				
0011	Instruction	4,380			810,386
0012	Instruction resources and media services	1,168			1,168
0013	Curriculum and instructional staff development	2,253			18,659
0023	School leadership	1,546			1,546
0035	Food services				777,768
0036	Extracurricular activities	45,070			45,070
0051	operations			3,705	3,705
0061	Community services				4,700
6030	Total Expenditures	54,417	\$	3,705	1,663,002
1200	Net change in fund balances	43,225		(3,687)	(7,702)
0100	Fund Balance - beginning	6,127		3,687	56,129
3000	Fund Balance - ending	\$ 49,352	\$	\$	\$ 48,427

TEA REQUIRED INFORMATION

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
For the Year Ended August 31, 2014

<u>Last Ten Fiscal Years</u>	<u>Tax Rates</u>		<u>Net Assessed/Appraised Value For School Tax Purposes</u>	<u>Beginning Balance 9/1/13</u>
	<u>1</u>	<u>2</u>		
	<u>Maintenance</u>	<u>Debt Service</u>		
2005 and prior	Various	Various	Various	\$ 191,206
2006	1.500000	0.220000	242,990,473	42,002
2007	1.370000	0.220000	263,547,938	47,160
2008	1.040000	0.340000	300,609,652	49,442
2009	1.040000	0.340000	333,069,868	56,517
2010	1.040000	0.340000	355,493,922	104,452
2011	1.040000	0.340000	407,611,014	161,965
2012	1.040000	0.340000	416,930,942	237,044
2013	1.170000	0.210000	426,002,298	344,360
2014	1.170000	0.210000	439,268,623	
1000 Totals				<u>\$ 1,234,148</u>

Exhibit J-1

20	31	32	40	50
Current Year's Total Levy	Maintenance Total Collections	Debt Service Total Collections	Entire Year's Adjustments	Ending Balance 8/31/14
\$	\$ 5,773	\$ 982	\$ 2,267	\$ 186,718
	2,507	367	(757)	38,371
	1,997	321	(700)	44,142
	5,785	1,892	(579)	41,186
	12,747	4,167	738	40,341
	24,490	8,006	6,917	78,873
	56,353	18,423	15,236	102,425
	86,143	28,162	9,438	132,177
	140,517	25,221	(5,651)	172,971
<u>6,061,907</u>	<u>4,874,581</u>	<u>874,925</u>		<u>312,401</u>
<u>\$ 6,061,907</u>	<u>\$ 5,210,893</u>	<u>\$ 962,466</u>	<u>\$ 26,909</u>	<u>\$ 1,149,605</u>

Total taxes receivable per Exhibit C-1 \$ 1,149,605

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION FUND
For the Year Ended August 31, 2014

Exhibit J-4

Data Control Codes		Child Nutrition			Variance with Final Budget Positive (Negative)
		Budget		Actual	
		Original	Final		
Revenues					
5700	Local, Intermediate, and Out-of-State	\$ 76,000	\$ 76,000	\$ 71,021	\$ (4,979)
5800	State Program Revenues	4,200	4,200	4,335	135
5900	Federal Program Revenues	607,000	644,000	681,455	37,455
5020	Total Revenues	687,200	724,200	756,811	32,611
Expenditures					
Current:					
0035	Food Services	687,200	724,200	777,768	(53,568) *
6030	Total Expenditures	687,200	724,200	777,768	(53,568)
1200	Net change in fund balance			(20,957)	(20,957)
0100	Fund Balance - beginning	20,032	20,032	20,032	
3000	Fund Balance - ending	\$ 20,032	\$ 20,032	\$ (925)	\$ (20,957)

* Expenditures exceeding appropriation at the function level.

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
For the Year Ended August 31, 2014

Exhibit J-5

Data Control Codes		Debt Service Fund			
		Budget			Variance with Final Budget Positive (Negative)
		Original	Final	Actual	
Revenues					
5700	Local, Intermediate, and Out-of-State	\$ 924,542	\$ 924,542	\$ 1,007,316	\$ 82,774
5800	State Program Revenues	163,913	163,913	212,651	48,738
5020	Total Revenues	<u>1,088,455</u>	<u>1,088,455</u>	<u>1,219,967</u>	<u>131,512</u>
Expenditures					
Debt Service:					
0071	Bond Principal	1,023,173	1,023,173	558,097	465,076
0072	Interest on Bond	558,093	558,093	1,023,169	(465,076)
0073	Bond Issuance Costs and Fees	1,500	1,500	1,650	(150) *
6030	Total Expenditures	<u>1,582,766</u>	<u>1,582,766</u>	<u>1,582,916</u>	<u>(150)</u>
1100	Excess (deficiency) of revenues over expenditures	(494,311)	(494,311)	(362,949)	131,362
Other Financing Sources (Uses)					
7915	Transfers in	500,000	500,000	500,000	
7080	Total other financing sources (uses)	<u>500,000</u>	<u>500,000</u>	<u>500,000</u>	
1200	Net change in fund balance	5,689	5,689	137,051	131,362
0100	Fund Balance - beginning	<u>349,115</u>	<u>349,115</u>	<u>349,115</u>	
3000	Fund Balance - ending	<u>\$ 354,804</u>	<u>\$ 354,804</u>	<u>\$ 486,166</u>	<u>\$ 131,362</u>

* Expenditures exceeding appropriation at the function level.

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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, 2014, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 7, 2015.

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 2013-001, 2013-002, 2013-004, and 2014-001.

To the Board of Trustees
Hempstead Independent School District

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 2013-005, 2013-006, 2013-007, and 2013-008.

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 and corrective action plan. 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
January 7, 2015

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, 2014. 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 includes 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.

To the Board of Trustees
Hempstead Independent School District

Opinion on Each Major Federal Program

In our opinion, 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 each of its major federal programs for the year ended August 31, 2014.

Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as finding 2013-015. Our opinion on each major federal program is not modified with respect to these matters.

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

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.

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 deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2013-012, 2013-015, and 2013-016 to be significant deficiencies.

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

To the Board of Trustees
Hempstead Independent School District

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.

Whitley Penn LLP

Houston, Texas
January 7, 2015

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended August 31, 2014

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes, Finding # 2013-001, # 2013-002, # 2013-004, and # 2014-001
Significant deficiencies identified that are not considered to be material weaknesses?	None identified.
Noncompliance material to financial statements noted?	Yes, Findings # 2013-005, # 2013-006, # 2013-007, and # 2013-008.

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, Findings # 2013-012, # 2013-015, # 2013-016.
Type of auditors' report issued on compliance with major programs:	Unmodified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) OMB Circular A-133?	Yes, Finding # 2013-015

Identification of major programs

Name of Federal Program or Cluster:	CFDA Number:
ESEA, Title I Part A – Improving Basic Programs	84.010A
Child Nutrition Cluster:	
School Breakfast Program	10.553
National School Lunch Program	10.555
National School Lunch Program - USDA Commodities	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, 2014

II. Financial Statement Findings

Material Weakness

Finding # 2013-001 – 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. The District does not have a procedure for reconciling TEA payments received to expenditures made. There are no formal procedures in place to reconcile the information reported to PEIMS to the financial reports. There are no formal procedures in place to record petty cash activity.

Cause: The District operated with no Business Manager for most of the fiscal year

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.

Finding # 2013-002 – 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, for the 25 sampled journal entries, we noted that there is no formal review and approval of 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, 2014

II. Financial Statement Findings (continued)

Finding # 2013-004 – 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: in 23 instances adequate support for the pay rate or step was not maintained in the employee personnel file, we were able to determine the salary paid per review of the years of service; in 11 instances the employee personnel files did not include supporting documentation related to stipends paid, for 8 of these instances we were able to confirm that the stipends were properly paid per review of other documentation in the file, for the remaining 3 separate instances employees were receiving stipends that did not appear on the stipend schedule and were not supported by other documentation in the employee personnel file. In addition, the existence of employees is not verified on a regular basis and payroll changes are not reconciled after entered into the system.

Cause: Due to personnel rotation, 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.

Finding # 2014-001 – Accounts Payable Control Activities

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

Condition: District policy requires approval by the board of purchases in excess of \$15,000, during our review of selected nonpayroll expenditures we did not obtain supporting documentation evidencing approval for selected purchases over this threshold. In addition, there is no segregation of duties between the set-up of vendors and expenditures/accounts payable processing, check runs are not appropriately reviewed and approved before finalized, and purchases made on District credit cards are not limited by employee.

Cause: Due to personnel rotation, the business office did not have adequate policies and procedures to implement controls related to nonpayroll activities.

Effect: Nonpayroll 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 nonpayroll expenditures are properly reviewed and supported.

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For The Year Ended August 31, 2014

II. Financial Statement Findings (continued)

Compliance and Other Matters

Finding # 2013-005 – 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. The Act requires that not less than quarterly, the investment officer prepare and submit a written report including specific elements listed in the Act Sec. 2256.023 (b). Investment officers must attend investment training sessions not less than once in a two-year period and receive not less than 10 hours of instruction.

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. The quarterly investment reports did not include all of the required elements as listed in the Act. Due to the separation from the District of the designated investment officer during fiscal year 2014, the applicable investment training certificate could not be obtained.

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 # 2013-006 – 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 Child Nutrition Fund.

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, 2014

II. Financial Statement Findings (continued)

Finding # 2013-007 – 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 \$10,461 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 # 2013-008 – 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 purchases made during the fiscal year for three vendors with purchases exceeding \$50,000. In addition, documentation was not provided to support the board approval for two contract renewals.

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, 2014

III. Federal Award Findings and Questioned Costs

Finding # 2013-012 – 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: The District has no formal process for verification of vendors for suspension or debarment.

Cause: It appears the District personnel was unaware of requirement.

Effect: The lack of a process in place to ensure compliance with this requirement could lead the District to purchase goods or services from ineligible vendors subjecting the District to repayment of federal funds from local resources.

Questioned Cost: None.

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.

Finding # 2013-015 – 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: Per our review of selected student applications in four instances the applications provided were incomplete; in three separate instances the student eligibility status per the eligibility listing did not agree to the student applications; two student applications were not signed by a district official and one of these two applications did not include income information supporting eligibility status.

Cause: It appears a proper audit trail was not maintained by the District personnel.

Effect: the lack of review over the income eligibility guidelines could result in the District inappropriately expending federal funds on ineligible participants in the Child Nutrition Programs and subjecting the District to repayment of those funds from local resources.

Questioned Cost: Unknown.

Recommendation: Management should review the eligibility 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, 2014

III. Federal Award Findings and Questioned Costs (continued)

Finding # 2013-016 – 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: The District has no formal process for verification of vendors for suspension or debarment.

Cause: It appears the District personnel were unaware of requirement.

Effect: The lack of a process in place to ensure compliance with this requirement could lead the District to purchase goods or services from ineligible vendors subjecting the District to repayment of federal funds from local resources.

Questioned Cost: None

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, 2014

IV. Status Of Prior Year Findings and Questioned Cost

Finding # 2013-001: Year-End Close Out Procedures	Status: Partially resolved; this situation continues to exist, see Finding # 2013-001.
Finding # 2013-002: Journal entry review	Status: This situation continues to exist, see Finding # 2013-002.
Finding # 2013-003: Supporting documentation	Status: Resolved - No similar instances noted during the current year audit.
Finding # 2013-004: Payroll Control Activities	Status: Similar instances were noted during the current year audit, see Finding # 2013-004.
Finding # 2013-005: Investment Policy	Status: This situation continues to exist, see Finding # 2013-005.
Finding # 2013-006: Expenditures in Excess of Appropriations	Status: This situation continues to exist, see Finding # 2013-006.
Finding # 2013-007: State Mandated Program Spending Requirement	Status: This situation continues to exist, see Finding # 2013-007.
Finding # 2013-008: Competitive Procurement Procedures	Status: Partially resolved; this situation continues to exist, see Finding # 2013-008.
Finding # 2013-009: ESEA, Title I Part A – Payroll	Status: Resolved - No similar instances noted during the current year audit.
Finding # 2013-010: ESEA, Title I Part A – Cash Management	Status: Resolved - No similar instances noted during the current year audit.
Finding # 2013-011: ESEA, Title I Part A – Eligibility	Status: Resolved - No similar instances noted during the current year audit.
Finding # 2013-012: ESEA, Title I Part A – Procurement and Suspension and Debarment	Status: Partially resolved; this situation continues to exist, see Finding # 2013-012.
Finding # 2013-013: ESEA, Title I Part A – Reporting	Status: Resolved - No similar instances noted during the current year audit.

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For The Year Ended August 31, 2014

IV. Status Of Prior Year Findings and Questioned Cost (continued)

Finding # 2013-014: ESEA, Title I Part A – Special Tests and Provisions: Participation of Private School Children	Status: Resolved - No similar instances noted during the current year audit.
Finding # 2013-015: Child Nutrition Cluster – Eligibility	Status: Similar instances were noted during the current year audit, see Finding # 2013-015.
Finding # 2013-016: Child Nutrition Cluster – Procurement and Suspension and Debarment	Status: Partially resolved; this situation continues to exist, see Finding # 2013-016.
Finding # 2013-017: Child Nutrition Cluster – Program Income	Status: Resolved - No similar instances noted during the current year audit.
Finding # 2013-018: Child Nutrition Cluster – Special Tests and Provisions: Verification of Free and Reduced Price Applications (NSLP)	Status: Resolved - No similar instances noted during the current year audit.

V. Corrective Action Plan

Finding # 2013-001 – Year-End Close Out Procedures

Response: The district has hired a Business Manager. She will 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, 2015

Finding # 2013-002 – 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, 2015

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For The Year Ended August 31, 2014

V. Corrective Action Plan (continued)

Finding # 2013-004 – 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, 2015

Finding # 2014-001 – Accounts Payable 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, 2015

Finding # 2013-005 – 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, 2015

Finding # 2013-006 – 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, 2015

Finding # 2013-007 – 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 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, 2015

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For The Year Ended August 31, 2014

V. Corrective Action Plan (continued)

Finding # 2013-008 – 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, 2015

Finding # 2013-012 – 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, 2015

Finding # 2013-015 – 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, 2015

Finding # 2013-016 – 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, 2015

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT

Exhibit K-1

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended August 31, 2014

(1) Federal Grantor/ Pass-Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass Through Entity Identifying Number	(3) Federal Expenditures
U.S. Department of Education			
Passed Through State Department of Education:			
<i>ESEA, Title I, Part A - Improving Basic Programs</i>	84.010A	14610101237902	\$ 419,949
<i>IDEA - Part B, Formula*</i>	84.027A	146600012379026000	253,150
<i>IDEA - Part B, Preschool*</i>	84.173A	146610012379026000	3,844
<i>Career and Technical Basic - Grant</i>	84.048A	14420006237902	15,974
<i>ESEA, Title II, Part A - Teacher & Principal Training & Recruiting</i>	84.367A	14694501237902	54,782
<i>ESEA Title III, Part A, English Language Acquisition</i>	84.365A	14671001237902	17,858
Total U.S. Department of Education			<u>765,557</u>
U.S. Department of Agriculture			
Passed Through State Department of Education:			
Cash assistance:			
<i>School Breakfast Program**</i>	10.553	71401401	198,578
<i>National School Lunch Program**</i>	10.555	71301401	434,242
Total Passed Through State Department of Education			<u>632,820</u>
Passed Through Texas Department of Agriculture:			
Non-cash assistance:			
<i>National School Lunch Program - USDA Commodities**</i>	10.555	CE # 01113	48,635
Total Passed Through Texas Department of Agriculture			<u>48,635</u>
Total U.S. Department of Agriculture			<u>681,455</u>
Total Expenditures of Federal Awards			<u>\$ 1,447,012</u>

* Special Education Cluster (IDEA)

** Child Nutrition Cluster

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

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, 2014. 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)	\$ 1,718,791
SHARS	(271,779)
Total Federal Awards on Exhibit K-1	<u><u>\$ 1,447,012</u></u>

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (continued)

Note 4 - General Fund Federal Revenues

Federal Awards reported in the general fund are summarized as follows:

SHARS	\$ 271,779
Indirect Costs:	
ESEA, Title I, Part A	5388
ESEA, Title II, Part A - Teacher & Principal Training & Recruiting	976
ESEA Title III, Part A, English Language Acquisition	227
Career and Technical Basic - Grant	346
	<u>\$ 278,716</u>

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HEMPSTEAD INDEPENDENT SCHOOL DISTRICT

Exhibit L-1

Required Responses

August 31, 2014

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning default on bonded indebtedness obligations?	No
SF4	Did the district receive a clean audit? - Was there an 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>\$ 586,127</u>

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