

**HEMPSTEAD
INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL AND
COMPLIANCE REPORT**

**For The Year Ended August 31, 2015
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, 2015, at a meeting of the board of trustees of such school district on February 15, 2016.

Wawarofsky
Signature of Board Secretary

PCBARDON
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, 2015, 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, 2015, and respective changes in the financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 and Note 16 to the financial statements, the District adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, for the year ending August 31, 2015. Our opinions are not modified with respect to this matter.

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 the budgetary comparison information and the required pension system information on pages 47 through 51 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 U.S. 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 February 10, 2016 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
February 10, 2016

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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, 2015. 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 \$3,699,351.
- The statement of activities, presents a prior period adjustment to decrease net position by \$1,337,704 related to the implementation of GASB Statement No. 68 and GASB Statement No. 71.
- For the year, the District's general fund reported a total fund balance of \$2,739,289; from this amount \$162,498 is nonspendable fund balance and \$2,576,791 is unassigned fund balance.
- 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 \$3,038,146.

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 deferred outflows, and liabilities and deferred inflows. 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 deferred outflows, and liabilities and deferred inflows - 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 State Aid 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, 2015 and August 31, 2014, are summarized as follows, based on the information included in the government-wide financial statements.

The District's total assets and deferred outflows of resources exceeded total liabilities and deferred inflows of resources by \$3,699,351 as of August 31, 2015, a decrease of \$723,316 over August 31, 2014, including the prior period adjustment of \$1,337,704. The District's total unrestricted net position of \$862,450 and net position invested in capital assets of \$2,648,623, as of August 31, 2015.

Hempstead Independent School District's Net Position
Governmental Activities

	<u>2015</u>	<u>2014</u>	\$ change	% change
Cash and cash equivalents	\$ 2,679,338	\$ 2,176,069	\$ 503,269	23.1%
Investments	883,012	1,582,484	(699,472)	-44.2%
Other assets	1,457,470	957,077	500,393	52.3%
Capital assets less accumulated depreciation	19,515,134	20,463,891	(948,757)	-4.6%
Total Assets	<u>24,534,954</u>	<u>25,179,521</u>	<u>(644,567)</u>	-2.6%
Deferred outflows relating to pension activities	333,236		333,236	100%
Total Deferred Outflows of Resources	<u>333,236</u>	<u></u>	<u>333,236</u>	
Current liabilities	1,218,065	1,119,089	98,976	8.8%
Long term liabilities	19,589,604	19,637,765	(48,161)	-0.2%
Total Liabilities	<u>20,807,669</u>	<u>20,756,854</u>	<u>50,815</u>	0.2%
Deferred inflows relating to pension activities	361,170		361,170	100%
Total Deferred Inflows of Resources	<u>361,170</u>	<u></u>	<u>361,170</u>	
Net Position				
Net investment in capital assets	2,648,623	1,144,236	1,504,387	131.5%
Restricted	188,278	372,394	(184,116)	-49.4%
Unrestricted	862,450	2,906,037	(2,043,587)	-70.3%
Total Net Position	<u>\$ 3,699,351</u>	<u>\$ 4,422,667</u>	<u>\$ (723,316)</u>	-16.4%

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

The District's net position decreased by \$723,316 during the year, due primarily to the prior period adjustment of \$1,337,704 to decrease net position. In addition, expenses increased by \$ 543,734 , a 3.4% increase, with the largest increase occurring in the Data Processing Services expenses primarily due to additional personnel and significant infrastructure purchases, in the Guidance, Counseling and Evaluation Services expenses primarily due to additional contracted services costs in special education, and in the Instructional Leadership expenses primarily due to additional personnel due to the needs for school improvement.

Hempstead Independent School District's Changes in Net Position

	Governmental Activities		change \$	% change
	2015	2014		
Revenue:				
Program Revenues:				
Charges for services	\$ 183,835	\$ 308,467	\$ (124,632)	-40.4%
Operating grants & contributions	2,757,670	2,593,908	163,762	6.3%
General Revenues:				
Property taxes	6,634,381	6,356,587	277,794	4.4%
State Aid	7,616,516	7,827,194	(210,678)	-2.7%
Investment earnings	18,382	13,369	5,013	37.5%
Other revenue	15,293	97,687	(82,394)	-84.3%
Total Revenues	17,226,077	17,197,212	28,865	0.2%
Expenses				
Instruction	8,131,315	8,167,258	(35,943)	-0.4%
Instructional Resources and Media Services	184,844	201,161	(16,317)	-8.1%
Curriculum and Staff Development	207,743	148,833	58,910	39.6%
Instructional Leadership	254,507	144,703	109,804	75.9%
School Leadership	929,160	903,306	25,854	2.9%
Guidance, Counseling, and Evaluation Services	643,082	420,575	222,507	52.9%
Health Services	97,839	87,993	9,846	11.2%
Student Transportation	622,271	646,681	(24,410)	-3.8%
Food Services	848,472	863,116	(14,644)	-1.7%
Extracurricular Activities	654,934	712,573	(57,639)	-8.1%
General Administration	1,072,227	1,136,172	(63,945)	-5.6%
Facilities Maintenance and Operations	1,534,438	1,438,063	96,375	6.7%
Security and Monitoring Services	163,684	177,575	(13,891)	-7.8%
Data Processing Services	411,112	157,957	253,155	160.3%
Community Services	834	25,287	(24,453)	-96.7%
Debt service - interest on long-term debt	748,071	713,270	34,801	4.9%
Other intergovernmental charges	107,156	123,432	(16,276)	-13.2%
Total Expenses	16,611,689	16,067,955	543,734	3.4%
Increase (Decrease) in Net Position	614,388	1,129,257	(514,869)	-45.6%
Beginning Net Position	4,422,667	3,293,410		
Prior period adjustment	(1,337,704)			
Ending Net Position	\$ 3,699,351	\$ 4,422,667		

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

Governmental Activities

Governmental activities increased the District's net position by \$614,388 before the prior period adjustment to decrease net position by \$1,337,704. Key elements of this increase are as follows:

Revenues are generated primarily from two sources. State Aid Formula Grant, operating grants and contributions totaling \$10,374,186 represent 60 percent of total revenues and property taxes of \$6,634,381 represents 39 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 \$8,131,315, which represents 48.9% of total expenses; plant, maintenance and operations of \$1,534,438 which represents 9.2%; and general administration of \$1,072,227 which represents 6.5%. 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 remained the same. The District's tax assessed valuation increased by approximately 5.023 percent. The increase in valuation along with an increase in collections of delinquent receivables, resulted in an increase of 4.4% or in property tax revenue over the prior year.

Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

Governmental Funds

The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of a District's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,038,146 an increase of \$236,121 in comparison with the prior year. The increase in ending governmental fund balances is primarily due to an increase by \$471,857 or 21% of the prior year balance in the fund balance in the general fund

The general fund is the chief operating fund of the District. At the end of the current fiscal year, the fund balance of the general fund was \$2,739,289; from this amount \$162,498 is nonspendable fund balance and \$2,576,791 is unassigned fund balance. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to total fund expenditures. Unassigned fund balance represents 19 percent of total general fund expenditures.

The debt service fund has a total fund balance of \$261,239, all of which is restricted for the payment of debt service. The debt service fund had a decrease of \$224,927 or 46% from the prior year primarily due to payments of the debt obligations. The debt service fund balance represents 16 percent of total debt service fund expenditures.

The nonmajor governmental funds, including the nonmajor capital project fund and the nonmajor special revenue funds, have a total fund balance of \$37,618, which represents a decrease of \$10,809 or 29% from the prior year. The decrease is primarily due to a deficit fund balance of \$28,523 the child nutrition program fund.

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

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 \$246,302 and the actual expenditures exceeded budgeted appropriations by \$341,111.

Capital Asset and Debt Administration

Capital Assets

At year end the District had \$19,515,134 invested in a broad range of capital assets, including land, equipment, buildings and vehicles.

	Balance August 31, 2014	Additions	(Retirements)	Balance August 31, 2015
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	3,708,562	7,265	(24,500)	3,691,327
Total Capital assets, being depreciated	<u>31,215,190</u>	<u>7,265</u>	<u>(24,500)</u>	<u>31,197,955</u>
Less accumulated depreciation for:				
Buildings and improvements	(9,280,269)	(726,867)		(10,007,136)
Furniture and Equipment	(1,593,782)	(229,155)	24,500	(1,798,437)
Total Accumulated depreciation	<u>(10,874,051)</u>	<u>(956,022)</u>	<u>24,500</u>	<u>(11,805,573)</u>
Governmental Capital Assets	<u>\$ 20,463,891</u>	<u>\$ (948,757)</u>	<u>\$</u>	<u>\$ 19,515,134</u>

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

Debt Administration

At year-end the District had \$18,408,934 in long-term debt as shown below:

	Balance August 31, 2014	Additions	Retirements	Balance August 31, 2015	Amounts Due Within One Year
Governmental Activities:					
Bonds payable:					
Series 2005	\$ 5,581,903	\$	\$ 5,581,903	\$	\$
Series 2007	8,469,480		200,000	8,269,480	210,000
Series 2013	2,485,000		335,000	2,150,000	340,000
Series 2015		5,155,000		5,155,000	395,000
	<u>16,536,383</u>	<u>5,155,000</u>	<u>6,116,903</u>	<u>15,574,480</u>	<u>945,000</u>
Other liabilities:					
Worker's Compensation	115,537	600,051	574,897	140,691	
Loans	1,585,314		317,783	1,267,531	338,221
Capital leases	706,214		93,221	612,993	98,382
Premiums	108,190	567,696	46,666	629,220	
Accreted interest	586,127	20,989	423,097	184,019	
	<u>3,101,382</u>	<u>1,188,736</u>	<u>1,455,664</u>	<u>2,834,454</u>	<u>436,603</u>
	<u>\$ 19,637,765</u>	<u>\$ 6,343,736</u>	<u>\$ 7,572,567</u>	<u>\$ 18,408,934</u>	<u>\$ 1,381,603</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 2016 fiscal year, the District's tax rate remained the same at \$1.17 for maintenance and operations and \$0.21 for debt service. Property values for the 2016 fiscal year (2015 tax year) increased by approximately 5.4%. Estimated total General Fund appropriations and revenues for the 2015 fiscal year are approximately \$13.7 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, 2015

Exhibit A-1

Data Control Codes	Governmental Activities
Assets	
1110 Cash and temporary investments	\$ 2,679,338
1120 Investments	883,012
1220 Delinquent property taxes receivables	1,054,572
1230 Allowance for uncollectable taxes (credit)	(263,643)
1240 Due from other governments	399,992
1267 Due from Fiduciary Funds	2,977
1290 Other receivables (net)	95,458
1300 Inventories	5,616
1410 Prepaid items	162,498
Capital assets:	
1510 Land	122,752
Capital Assets, net of accumulated depreciation:	
1520 Buildings and improvements, net	17,499,492
1530 Furniture and equipment, net	1,892,890
1000 Total Assets	24,534,954
Deferred Outflows of Resources	
1705 Deferred outflows relating to pension activities	333,236
Total Deferred Outflows of Resources	333,236
Liabilities	
2110 Accounts payable	238,553
2140 Interest payable	27,320
2160 Accrued wages payable	364,431
2180 Due to other governments	574,991
2200 Accrued expenses	9,187
2300 Unearned revenue	3,583
Noncurrent Liabilities:	
2501 Due within one year	1,381,603
2502 Due in more than one year	17,027,331
2540 Net Pension Liability	1,180,670
2000 Total Liabilities	20,807,669
Deferred Inflows of Resources	
2605 Deferred inflows relating to pension activities	361,170
Total Deferred Inflows of Resources	361,170
Net Position	
3200 Net investment in capital assets	2,648,623
Restricted for:	
3820 Federal and state programs	1,001
3850 Debt service	187,277
3900 Unrestricted	862,450
3000 Total Net Position	\$ 3,699,351

See Notes to the Financial Statements

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT

Exhibit B-1

STATEMENT OF ACTIVITIES

For the Year Ended August 31, 2015

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:				
11	Instruction	\$ 8,131,315	\$ 71,678	\$ 1,346,008	\$ (6,713,629)
	Instructional Resources and Media				
12	Services	184,844		7,661	(177,183)
13	Curriculum and Staff Development	207,743		80,190	(127,553)
21	Instructional Leadership	254,507		33,688	(220,819)
23	School Leadership	929,160		68,950	(860,210)
	Guidance, Counseling, and Evaluation				
31	Services	643,082		92,526	(550,556)
33	Health Services	97,839		145,655	47,816
34	Student Transportation	622,271	3,245	30,644	(588,382)
35	Food Services	848,472	66,099	648,423	(133,950)
36	Extracurricular Activities	654,934	41,863	22,983	(590,088)
41	General Administration	1,072,227		45,966	(1,026,261)
51	Facilities maintenance and operations	1,534,438	950	45,966	(1,487,522)
52	Security and Monitoring Services	163,684		7,661	(156,023)
53	Data Processing Services	411,112		15,322	(395,790)
61	Community Services	834			(834)
72	Interest on Long-term Debt	748,071		166,027	(582,044)
99	Other Intergovernmental Charges	107,156			(107,156)
TG	Total governmental activities	\$ 16,611,689	\$ 183,835	\$ 2,757,670	(13,670,184)

General revenues:

	Taxes:	
MT	Property taxes, levied for general purposes	5,503,274
DT	Property taxes, levied for debt service	1,131,107
SF	State-aid formula grants	7,616,516
IE	Investment earnings	18,382
MI	Miscellaneous	15,293
TR	Total general revenues	14,284,572
CN	Change in net position	614,388
NB	Net position - beginning	4,422,667
PA	Prior period adjustment	(1,337,704)
NE	Net position - ending	\$ 3,699,351

See Notes to the Financial Statements

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT

Exhibit C-1

BALANCE SHEET

GOVERNMENTAL FUNDS

August 31, 2015

Data Control Codes		General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets					
1110	Cash and cash equivalents	\$ 2,186,515	\$ 426,682	\$ 66,141	\$ 2,679,338
1120	Investments	883,012			883,012
Receivables:					
1220	Delinquent property taxes receivables	871,266	183,306		1,054,572
1230	Allowance for uncollectible taxes (credit)	(217,714)	(45,929)		(263,643)
1240	Due from other governments	90,824	6,354	302,814	399,992
1260	Due from other funds	452,521			452,521
1290	Other receivables			95,458	95,458
1300	Inventories			5,616	5,616
1410	Prepaid items	162,498			162,498
1000	Total Assets	<u>\$ 4,428,922</u>	<u>\$ 570,413</u>	<u>\$ 470,029</u>	<u>\$ 5,469,364</u>
Liabilities, Deferred Inflows and Fund Balance					
Liabilities:					
2110	Accounts payable	\$ 160,804	\$	\$ 77,749	\$ 238,553
2160	Accrued wages payable	337,918		26,513	364,431
2170	Due to other funds		127,554	321,990	449,544
2180	Due to State	530,748	44,243		574,991
2200	Accrued expenditures	6,611		2,576	9,187
2300	Unearned revenues			3,583	3,583
2000	Total Liabilities	<u>1,036,081</u>	<u>171,797</u>	<u>432,411</u>	<u>1,640,289</u>
Deferred Inflows of Resources					
2600	Unavailable revenue - property taxes	653,552	137,377		790,929
	Total Deferred Inflows of Resources	<u>653,552</u>	<u>137,377</u>		<u>790,929</u>
Fund Balance:					
Nonspendable					
3410	Inventories			5,616	5,616
3430	Prepaid Items	162,498			162,498
Restricted for:					
3450	Federal/State Grant Funds			1,001	1,001
3480	Debt service		261,239		261,239
Committed for:					
3545	Other Purposes			65,140	65,140
3600	Unassigned	2,576,791		(34,139)	2,542,652
3000	Total fund balances	<u>2,739,289</u>	<u>261,239</u>	<u>37,618</u>	<u>3,038,146</u>
4000	Total Liabilities, Deferred Inflows and Fund Balances	<u>\$ 4,428,922</u>	<u>\$ 570,413</u>	<u>\$ 470,029</u>	<u>\$ 5,469,364</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, 2015

Exhibit C-2

**Data
Control
Codes**

Total fund balance, governmental funds \$ 3,038,146

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. 19,515,134
- 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). 790,929
- 3** Deferred Outflows relating to pension activities 333,236
- 4** Interest payable on long-term liabilities, is due within a year, but is not included in the fund financial statements. (27,320)

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:

- 5** General obligation bonds (15,574,480)
- 6** Loans payable (1,267,531)
- 7** Capital leases payable (612,993)
- 8** Premium on issuance (629,220)
- 9** Accreted interest on capital appreciation bonds (184,019)
- 10** Workers Compensation Long Term Liability (140,691)
- 11** Net Pension Liability (1,180,670)
- 12** Deferred Inflows relating to pension activities (361,170)
- 19 Total net position - governmental activities** \$ 3,699,351

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, 2015

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	\$ 5,681,439	\$ 1,154,894	\$ 86,833	\$ 6,923,166
5800	State program revenues	8,291,972	166,027	241,749	8,699,748
5900	Federal program revenues	137,994		1,565,603	1,703,597
5020	Total revenues	<u>14,111,405</u>	<u>1,320,921</u>	<u>1,894,185</u>	<u>17,326,511</u>
Expenditures					
Current:					
0011	Instruction	6,806,016		1,005,371	7,811,387
0012	Instructional resources and media services	147,514			147,514
0013	Curriculum and instructional staff development	131,420		72,529	203,949
0021	Instructional leadership	233,599		20,342	253,941
0023	School leadership	879,872			879,872
0031	Guidance, counseling and evaluation services	583,237		61,882	645,119
0033	Health services	95,182			95,182
0034	Student transportation	553,237		2,750	555,987
0035	Food services			742,120	742,120
0036	Extracurricular activities	528,353			528,353
0041	General administration	1,001,309			1,001,309
0051	Facilities maintenance and operations	1,471,884			1,471,884
0052	Security and monitoring services	160,506			160,506
0053	Data processing services	412,853			412,853
0061	Community services	834			834
Debt service:					
0071	Principal on long-term debt	411,004	536,903		947,907
0072	Interest on long-term debt	85,572	1,008,544		1,094,116
0073	Debt issuance costs and fees		125,026		125,026
Intergovernmental:					
0099	Other intergovernmental charges	107,156			107,156
6030	Total Expenditures	<u>13,609,548</u>	<u>1,670,473</u>	<u>1,904,994</u>	<u>17,185,015</u>
1100	Excess (deficiency) of revenues over expenditures	<u>501,857</u>	<u>(349,552)</u>	<u>(10,809)</u>	<u>141,496</u>
Other Financing Sources (Uses)					
7901	Refunding bonds issued		5,155,000		5,155,000
7916	Premium on issuance of bonds		567,696		567,696
8940	Payments to bond refunding escrow agent		(5,598,071)		(5,598,071)
8949	Other uses	(30,000)			(30,000)
7080	Total other financing sources (uses)	<u>(30,000)</u>	<u>124,625</u>		<u>94,625</u>
1200	Net change in fund balance	471,857	(224,927)	(10,809)	236,121
0100	Fund Balance - beginning	<u>2,267,432</u>	<u>486,166</u>	<u>48,427</u>	<u>2,802,025</u>
3000	Fund Balance - ending	<u>\$ 2,739,289</u>	<u>\$ 261,239</u>	<u>\$ 37,618</u>	<u>\$ 3,038,146</u>

See Notes to the Financial Statements.

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT

Exhibit C-4

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

For the Year Ended August 31, 2015

**Data
Control
Codes**

	Net change in fund balances - total governmental funds (from C-3)	\$ 236,121
	Amounts reported for governmental activities in the statement of activities (B-1) are different	
	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.	
1	Governmental funds capital outlay expenditures	7,265
2	Governmental activities depreciation expense	(956,022)
3	Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(89,346)
4	Pension contributions made after the net pension liability date are reported as expenditures in the governmental funds and are reported as deferred outflows on the face of the statement of net position.	238,232
5	Repayment of bond principal is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	536,903
6	Repayment of loans payable is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	317,783
7	Repayment of capital leases is an expenditure in the governmental fund, but the repayment reduces long-term liabilities in the statement of net position.	93,221
	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.	
8	Payment to escrow agent for payment of refunded bonds	5,598,071
9	Proceeds from the current year issuance of refunding bond	(5,155,000)
10	Premium on issuance of bonds	(567,696)
	Some expenses reported in the statement of activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds:	
11	Amortization of premium/discount on bond issuance	46,666
12	Change in accreted interest on capital appreciation bonds	402,108
13	Decrease in interest payable not recognized in fund statements	40,368
14	Increase in workers Compensation Long Term Liability not recognized in fund statements	(25,154)
15	Pension expense for the pension plan measurement year	(109,132)
	Change in net position of governmental activities (see B-1)	\$ 614,388

See Notes to the Financial Statements.

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
August 31, 2015

Exhibit E-1

	<u>Private Purpose Trust Fund</u>	<u>Agency Fund</u>
	<u>Scholarship Fund</u>	<u>Student Activity</u>
Assets		
Cash and cash equivalents	\$ 11,562	\$ 23,345
Total Assets	<u>\$ 11,562</u>	<u>\$ 23,345</u>
Liabilities		
Due to other funds	\$ 2,977	\$
Due to student groups		23,345
Other Accrued expenses	3,150	
Total Liabilities	<u>6,127</u>	<u>\$ 23,345</u>
Net Position		
Held in Trust	5,435	
Total Net Position	<u>\$ 5,435</u>	

See Notes to the Financial Statements.

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
For the Year Ended August 31, 2015

Exhibit E-2

	Private Purpose Trust Fund Scholarship Fund
Additions	
Interest Income	\$ 14
Total additions	<u>14</u>
Deductions	
Scholarships awarded	<u>6,300</u>
Total deductions	<u>6,300</u>
Change in net position	(6,286)
Beginning net position	<u>11,721</u>
Ending net position	<u><u>\$ 5,435</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.

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*.

Note 1 - Summary of Significant Accounting Policies (continued)

Government-wide and Fund Financial Statements (continued)

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.

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.

Note 1 - Summary of Significant Accounting Policies (continued)

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

- 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.

Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, certificates of deposit 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, 2015. The investment pools (Lone Star and TexSTAR) 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."

Note 1 - Summary of Significant Accounting Policies (continued)

Inventories and Prepaid Items

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. The District's maintenance and operations property tax rate was \$1.17 and the District's debt service property tax rate was \$0.21 for the fiscal year 2015. 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.

Inventories consist of food service commodities. Food service commodity inventory is recorded at fair market value on the date received. Commodities are recognized as revenues in the period received when all the eligibility requirements are met. Commodity inventory items are recorded as expenditures when distributed to user locations. A portion of fund balance is classified as nonspendable to reflect minimum inventory quantities considered necessary for the District's continuing operations.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. A portion of fund balance is classified as nonspendable to reflect the prepaid items amount.

Capital Assets

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	20-40
Vehicles	10
Other Equipment	8-20

Note 1 - Summary of Significant Accounting Policies (continued)

Long-term Obligations

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

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

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

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 has two items that qualify for reporting in this category:

- Deferred outflows of resources for refunding - Reported in the government-wide statement of net position, this deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. During the current fiscal year, the entire amount of the deferred loss on refunding was amortized.
- Deferred outflows of resources for pension – Reported in the government-wide statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between expected and actual actuarial experiences. The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan which is currently 6.94 years.

Note 1 - Summary of Significant Accounting Policies (continued)

Deferred Outflows/Inflows of Resources (continued)

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 two items that qualify for reporting in this category:

- Deferred inflows of resources for unavailable revenues - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- Deferred inflows of resources for pension – Reported in the government wide financial statement of net position, these deferred inflows result primarily from differences between projected and actual earnings on pension plan investments. These amounts will be amortized over a closed five year period.

Pensions

The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

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. As such, inventory and prepaid items have been properly classified in the Governmental Funds Balance Sheet (Exhibit C-1).

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. The fund balances for Debt Service and Grant programs are classified as restricted.

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. The fund balance of the campus activity fund (Fund 461) is committed for use at the campuses.

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 2015 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.

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.

New Accounting Standards

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

GASB Statement 68, *Accounting and Financial Reporting for Pensions* (“GASB 68”) establishes accounting and financial reporting standards for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts or similar arrangements that meet certain criteria. The Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. Implementation is reflected in the financial statements, notes to the financial statements and required supplementary information.

GASB Statement 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* (“GASB 71”) amends the transition provisions of GASB 68. GASB 71 requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions made subsequent to the measurement date of the beginning net pension liability. Implementation is reflected in the financial statements and the notes to the financial statements.

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. At August 31, 2015, the carrying amount of the District's cash deposits was \$2,714,245, including fiduciary funds cash deposits, and the bank balance was \$3,212,527. The District's deposits were adequately collateralized as of August 31, 2015.

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)

Investments (continued)

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

	<u>Fair Market Value</u>	<u>Weighted Average Maturity (Days)</u>	<u>Rating</u>
Cash and deposits:			
Governmental activities	\$ 2,679,338	N/A	N/A
Fiduciary funds	34,907	N/A	N/A
Total cash and deposits	<u>2,714,245</u>		
Investments:			
Lone Star	28,474	27	AAA
TexSTAR	854,538	47	AAAm
Total Investments	<u>883,012</u>	46	
 Total Cash and Investments	 <u>\$ 3,597,257</u>		

Note 3 - Receivables

Receivables as of August 31, 2015 for the District's individual major and non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Debt Service Funds</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Property Taxes	\$ 871,266	\$ 183,306	\$	\$ 1,054,572
Due from other governments	90,824	6,354	302,814	399,992
Other			95,458	95,458
Gross Receivables	<u>962,090</u>	<u>189,660</u>	<u>398,272</u>	<u>1,550,022</u>
Less allowance for doubtful accounts	<u>(217,714)</u>	<u>(45,929)</u>		<u>(263,643)</u>
Net Total Receivables	<u>\$ 744,376</u>	<u>\$ 143,731</u>	<u>\$ 398,272</u>	<u>\$ 1,286,379</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, 2015, 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, 2015, is as follows:

	Interfund Receivable	Interfund Payable
General Fund	\$ 452,521	\$
Debt Service Fund		127,554
Nonmajor Governmental Funds		321,990
Private Purpose Trust Funds		2,977
	<u>\$ 452,521</u>	<u>\$ 452,521</u>

Note 5 - Capital Assets

Capital asset activity for the year ended August 31, 2015, was as follows:

	Balance August 31, 2014	Additions	(Retirements)	Balance August 31, 2015
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	3,708,562	7,265	(24,500)	3,691,327
Total Capital assets, being depreciated	<u>31,215,190</u>	<u>7,265</u>	<u>(24,500)</u>	<u>31,197,955</u>
Less accumulated depreciation for:				
Buildings and improvements	(9,280,269)	(726,867)		(10,007,136)
Furniture and Equipment	(1,593,782)	(229,155)	24,500	(1,798,437)
Total Accumulated depreciation	<u>(10,874,051)</u>	<u>(956,022)</u>	<u>24,500</u>	<u>(11,805,573)</u>
Governmental Capital Assets	<u>\$ 20,463,891</u>	<u>\$ (948,757)</u>	<u>\$</u>	<u>\$ 19,515,134</u>

Note 5 - Capital Assets (continued)

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

Function	Depreciation Expense
Instruction	\$ 474,008
Instructional resources and media services	37,778
Curriculum and staff development	1,024
School leadership	40,594
Health services	1,688
Student transportation	61,503
Food Services	106,352
Extracurricular activities	125,361
General administration	39,029
Facilities, maintenance and operations	59,939
Security and monitoring services	4,940
Data processing services	3,806
	<u>\$ 956,022</u>

Note 6 - Long-Term Liabilities

Long-term liability activity for the year ended August 31, 2015, was as follows:

	Balance August 31, 2014	Additions	Retirements	Balance August 31, 2015	Amounts Due Within One Year
Governmental Activities:					
Bonds payable:					
Series 2005	\$ 5,581,903	\$	\$ 5,581,903	\$	\$
Series 2007	8,469,480		200,000	8,269,480	210,000
Series 2013	2,485,000		335,000	2,150,000	340,000
Series 2015		5,155,000		5,155,000	395,000
	<u>16,536,383</u>	<u>5,155,000</u>	<u>6,116,903</u>	<u>15,574,480</u>	<u>945,000</u>
Other liabilities:					
Worker's Compensation	115,537	600,051	574,897	140,691	
Loans	1,585,314		317,783	1,267,531	338,221
Capital leases	706,214		93,221	612,993	98,382
Premiums	108,190	567,696	46,666	629,220	
Accreted interest	586,127	20,989	423,097	184,019	
	<u>3,101,382</u>	<u>1,188,736</u>	<u>1,455,664</u>	<u>2,834,454</u>	<u>436,603</u>
	<u>\$ 19,637,765</u>	<u>\$ 6,343,736</u>	<u>\$ 7,572,567</u>	<u>\$ 18,408,934</u>	<u>\$ 1,381,603</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.

Note 6 - Long-Term Liabilities (continued)

General obligation bonds outstanding at August 31, 2015, 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 School Building Bonds, Series 2007	9,399,480	5%	2037	\$ 8,269,480
Unlimited Tax Refunding Bonds, Series 2013	3,110,000	1.50% - 2.00%	2021	2,150,000
Unlimited Tax Refunding Bonds, Series 2015	5,155,000	2.00% - 4.00%	2026	5,155,000
				<u>\$ 15,574,480</u>

Loans outstanding at August 31, 2015, 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>
Maintenence Tax Note, Series 2013A	Finance District expenditures	\$ 467,052	2.99%	2018	\$ 282,318
Maintenence Tax Note, Series 2013B	Finance District expenditures	779,416	2.79%	2023	627,492
Technology Loan	Finance District expenditures	709,823	3.29%	2016	307,903
Public Property Finance Act Contract No. 6160	Capital assets acquisition	63,202	5.24%	2016	32,978
Loan No. 8216048	Capital assets acquisition	39,516	2.89%	2016	16,840
					<u>\$ 1,267,531</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>
2007	\$ 283,499	\$ 99,480	\$ 184,019	\$ 375,000	2022

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, 2015, are as follows:

Year Ending August 31,	Bonds Payable		Loans Payable	
	Principal	Interest	Principal	Interest
2016	\$ 945,000	\$ 556,384	\$ 338,221	\$ 37,999
2017	975,000	530,834	339,209	27,218
2018	1,010,000	501,184	172,007	16,382
2019	1,035,000	469,659	87,097	11,389
2020	1,070,000	441,321	79,365	9,235
2021	1,095,000	411,652	81,580	7,020
2022	749,480	654,216	83,856	4,744
2023	780,000	350,096	86,196	2,405
2024	815,000	318,046		
2025	855,000	284,339		
2026	905,000	248,642		
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>\$ 15,574,480</u>	<u>\$ 6,141,358</u>	<u>\$ 1,267,531</u>	<u>\$ 116,392</u>

On March 10, 2015, the District issued \$5,155,000 in Unlimited Tax Refunding Bonds, Series 2015 with an interest rate ranging from 2 percent to 4 percent. The bonds are refunding in whole the Bonds Series 2005 in the amount of \$5,580,000. The liability associated with these refunded bonds has been removed from the Statement of Net Position. The reacquisition price of \$5,598,071 was more than the carrying value of the refunded bonds, which resulted in a loss on refunding of \$18,071, expensed during the current fiscal year. This refunding resulted in an economic gain of \$618,531. The bonds were also issued at a premium in the amount of \$567,696 and will be amortized over the life of the refunding debt. The bonds mature in fiscal year 2026.

Note 7 - Capital and Operating Leases

Capital Leases

The District has an outstanding capital lease for an energy management system as of August 31, 2015.

The future minimum lease obligations and the net present value of these minimum lease payments as of August 31, 2015 were as follows:

<u>Year Ending August 31,</u>	<u>Governmental Activities</u>
2016	\$ 130,531
2017	130,530
2018	130,530
2019	130,530
2020	130,530
2021	<u>65,266</u>
Total minimum lease payments	717,917
Less: amount representing interest	(104,924)
Present value of minimum lease payments	<u><u>\$ 612,993</u></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>	
2016	\$ 71,088
2017	71,088
2018	71,088
2019	<u>46,375</u>
Total	<u><u>\$ 259,639</u></u>

Rent expenditures were approximately \$125,883 for the year ended August 31, 2015 .

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	\$ 5,555,437	\$ 1,150,219	\$	\$ 6,705,656
Investment Income	13,707	4,675		18,382
Food Sales			66,099	66,099
Other	112,295		20,734	133,029
Total	<u><u>\$ 5,681,439</u></u>	<u><u>\$ 1,154,894</u></u>	<u><u>\$ 86,833</u></u>	<u><u>\$ 6,923,166</u></u>

Note 9 - Defined Benefit Pension Plan

A. Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

All employees of public, state-supported educational institutions in Texas who are employed for one half or more of the standard work load and who are not exempted from membership under Texas Government Code, Title 8, Section 822.002 are covered by the system.

B. Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

C. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc postemployment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above.

D. Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

Note 9 - Defined Benefit Pension Plan (continued)

D. Contributions (continued)

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015.

	Contribution Rates	
	Plan Fiscal year	
	2014	2015
Member	6.40%	6.70%
Employer	6.80%	6.80%

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State is the employer for senior colleges, medical schools and state agencies including TRS. In each respective role, the State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA). Contributions and pension expense for all contributors were as follows:

	Measurement Year		Fiscal Year
	Contributions Required and Made		TRS Contributions
	Pension Expense		
Member (Employee)	\$ 104,212	\$	\$ 617,439
Non-employer contributing agency (State)	502,951	490,931	518,130
District	112,061	109,132	238,232

As the non-employer contributing entity for public education and junior colleges, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers (public school, junior college, other entities or the State of Texas as the employer for senior universities and medical schools) are required to pay the employer contribution rate in the following instances:

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, when employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.

Note 9 - Defined Benefit Pension Plan (continued)

E. Actuarial Assumptions

The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2014
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 years
Asset Valuation Method	5 year Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return*	8.00%
Salary Increases*	4.25% to 7.25%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.50%

**Includes Inflation of 3%*

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2010, and adopted on April 8, 2011. With the exception of the post-retirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the Summer of 2014, the assumptions and methods are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011 they contained a significant margin for possible future mortality improvement. As of the date of the valuation there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, the post-retirement mortality rates for current and future retirees was decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards of Practice No. 35.

F. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2014 are summarized below:

Note 9 - Defined Benefit Pension Plan (continued)

F. Discount Rate (continued)

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return *
Global Equity			
U.S.	18%	7.0%	1.4%
Non-U.S. Developed	13%	7.3%	1.1%
Emerging Markets	9%	8.1%	0.9%
Directional Hedge Funds	4%	5.4%	0.2%
Private Equity	13%	9.2%	1.4%
Stable Value			
U.S. Treasuries	11%	2.9%	0.3%
Absolute Return		4.0%	
Stable Value Hedge Funds	4%	5.2%	0.2%
Cash	1%	2.0%	
Real Return			
Global Inflation Linked Bonds	3%	3.1%	
Real Assets	16%	7.3%	1.5%
Energy and Natural Resources	3%	8.8%	0.3%
Commodities		3.4%	
Risk Parity			
Risk Parity	5%	8.9%	0.4%
Alpha			1.0%
Total	100%		8.7%

** The Expected Contributions to Returns incorporates the volatility drag resulting from the conversion between Arithmetic and Geometric mean returns.*

G. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2014 Net Pension Liability.

	1% Decrease 7%	Current Discount Rate 8%	1% Increase 9%
District's proportional share of the net pension liability	\$ 2,109,786	\$ 1,180,670	\$ 485,865

Note 9 - Defined Benefit Pension Plan (continued)

H. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows

At August 31, 2015, the District reported a liability of \$1,180,670 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's Proportionate share of the net pension liability	\$ 1,180,670
State's proportionate share of the net pension liability associated with the District	<u>5,310,337</u>
Total	<u><u>\$ 6,491,007</u></u>

The net pension liability was measured as of August 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2013 thru August 31, 2014.

At August 31, 2014, the employer's proportion of the collective net pension liability was 0.004419% which was substantially the same from its proportion measured as of August 31, 2013. The change in proportion was immaterial and therefore disregarded this year.

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's reporting date. A 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective September 1, 2014. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

For the year ended August 31, 2015, the District recognized pension expense of \$109,132, as well as revenue of \$490,931 representing pension expense incurred by the State on behalf of the District.

Note 9 - Defined Benefit Pension Plan (continued)

H. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows (continued)

At August 31, 2015, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 18,259	\$
Changes of assumptions	76,745	
Net difference between projected and actual earnings on pension plan investments		360,861
Changes in proportion and differences between District contributions and proportionate share of contributions		309
District contributions subsequent to the measurement date	238,232	
Total	<u>\$ 333,236</u>	<u>\$ 361,170</u>

The \$238,232 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date, will be recognized as a reduction of the net pension liability in the year ended August 31, 2016. The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31	Amount
2016	\$ (74,275)
2017	(74,275)
2018	(74,275)
2019	(74,276)
2020	15,940
2021	14,995

Note 10 - Retiree Health Plan

Plan Description

The 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 Retiree 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.

Note 10 - Retiree Health Plan (continued)

Plan Description (continued)

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 2015, 2014 and 2013. 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

Contributions made by the State, District and staff members for the years ended August 31, 2015, 2014, and 2013, 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
2015	\$ 86,278	\$ 56,563	\$ 59,901	\$ 9,215,511
2014	81,649	56,127	57,795	8,891,203
2013	38,641	50,781	54,918	8,448,900

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, 2015, 2014 and 2013, the subsidy payments received by TRS-Care on behalf of the District were \$36,730, \$22,141, and \$21,844, respectively. These payments are recorded as equal revenues and expenditures in the governmental funds financial statement of the District.

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, 2014 to August 31, 2015 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, if any, 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.

From time to time, the District is a defendant in legal proceedings relating to its operations as a school district. Although the outcome of these lawsuits is not presently determinable, in the opinion of management and the District's counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the District.

Note 13 - Risk Management

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 \$28,523. The District plans to eliminate this deficit balance through future operations.

Note 15 - Other Uses

The General Fund presents other uses in the amount of \$30,000 related to a settlement payment agreement of a claim.

Note 16 - Prior Period Adjustment

Implementation of New Accounting Standards

The District has implemented the GASB Statement No. 68 *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, and amendment of GASB Statement No., 68*, for the year ending August 31, 2015. As a result the beginning net position of the District’s governmental activities has been restated on the Statement of Activities to reflect the net pension liability and deferred outflows of resources relating to pension contributions made after the prior measurement date of the plan.

	Governmental Activities
Beginning Net Position - As Originally Presented	\$ 4,422,667
Prior Period Restatement	
Net Pension Liability (measurement date as of 08/31/2013)	(1,449,765)
Deferred Outflow of Resources (contributions made to TRS during the fiscal year)	112,061
Beginning Net Position - As Restated	\$ 3,084,963

Note 17 – Subsequent Event

Subsequent to the end of the fiscal year, the District authorized the issuance of Refunding Bond Series 2016 for \$7,675,000 to partially refund Bond Series 2007.

REQUIRED SUPPLEMENTARY INFORMATION

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HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended August 31, 2015

Exhibit G-1

Data Control Codes	Budgeted Amounts		Actual Amounts (Budgetary Basis)	Variance with Final Budget - Positive (Negative)
	Original	Final		
Revenues				
5700	\$ 5,268,351	\$ 5,415,271	\$ 5,681,439	\$ 266,168
5800	8,363,911	8,272,832	8,291,972	19,140
5900	170,000	177,000	137,994	(39,006)
5020	13,802,262	13,865,103	14,111,405	246,302
Expenditures				
Current:				
0011	6,502,941	6,804,488	6,806,016	(1,528) *
0012	170,831	154,846	147,514	7,332
0013	149,623	150,429	131,420	19,009
0021	170,937	249,163	233,599	15,564
0023	853,540	900,059	879,872	20,187
0031	425,821	611,804	583,237	28,567
0033	113,395	97,589	95,182	2,407
0034	601,525	632,175	553,237	78,938
0036	641,206	586,441	528,353	58,088
0041	902,873	989,559	1,001,309	(11,750) *
0051	1,621,424	1,493,578	1,471,884	21,694
0052	191,030	203,888	160,506	43,382
0053	206,197	436,999	412,853	24,146
0061	32,011	2,641	834	1,807
Debt Service:				
0071	518,420	514,000	411,004	102,996
0072			85,572	(85,572) *
Intergovernmental:				
0099	123,000	123,000	107,156	15,844
6030	13,224,774	13,950,659	13,609,548	341,111
1100	577,488	(85,556)	501,857	587,413
Other Financing Sources (Uses)				
8911		(607,488)		607,488
8949	(577,488)		(30,000)	(30,000) *
7080	(577,488)	(607,488)	(30,000)	577,488
1200		(693,044)	471,857	1,164,901
0100	2,267,432	2,267,432	2,267,432	
3000	\$ 2,267,432	\$ 1,574,388	\$ 2,739,289	\$ 1,164,901

* 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, 2015.

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 21, 2014. 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, 2015, 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.

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
SCHEDULES OF REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF
THE NET PENSION LIABILITY
Teacher Retirement System of Texas

Exhibit G-3

	<u>2014</u>
District's proportion of the net pension liability	0.004419%
District's proportionate share of the net pension liability	\$ 1,180,670
State's proportionate share of the net pension liability associated with the District	5,310,337
Total	<u>\$ 6,491,007</u>
District's covered-employee payroll (for Measurement Year)	\$ 8,891,203
District's proportionate share of the net pension liability as a percentage of it's covered-employee payroll	13.3%
Plan fiduciary net position as a percentage of the total pension liability *	83.25%
Plan's net pension liability as a percentage of covered-employee payroll *	72.89%

The amounts presented for each Plan year which ends the preceding August 31 of the District's fiscal year.

Net pension liability is calculated using an new methodology and will be presented prospectively in accordance with GASB 68.

* Per TRS' CAFR

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
Teachers Retirement System of Texas
Last Four Fiscal Years

Exhibit G-4

	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Contractually required contributions	\$ 238,232	\$ 112,061	\$ 131,292	\$ 120,844
Contributions in relation to the contractual required contributions	<u>238,232</u>	<u>112,061</u>	<u>\$ 131,292</u>	<u>\$ 120,844</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered employee payroll	\$ 9,215,511	\$ 8,891,203	\$ 8,448,900	\$ 8,435,541
Contributions as a percentage of covered employee payroll	2.59%	1.26%	1.55%	1.43%

The District adopted the provisions of GASB No. 68 and No. 71 during the fiscal year ended August 31, 2015.

A. Changes in Assumptions

Modifications to the actuarial methods and assumptions are based on a study of actual experience as adopted on April 8, 2011. The assumptions and methods used in the current valuation are the same except for the following modifications:

- Small reductions in the rates of retirements at most age and service combinations.
- Decrease in the post-retirement rates of mortality for both males and females.
- The salary increase assumption in the first year of employment was reduced.
- The method for determining the actuarial value of assets was modified to a method that sets the actuarial value of assets as the expected actuarial value of assets plus 20% of the difference between the actual market value of the assets and the expected actuarial value of assets.

Amounts reported for 2014 reflect the adoption of the new mortality assumption that the average life expectancy for members over 65 years of age will increase by roughly nine months over the next four years.

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OTHER SUPPLEMENTARY INFORMATION

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
August 31, 2015

Data Control Codes		211	224	225	240
		ESEA Title I, Part A - Improving Basic Programs	IDEA, Part B - Formula	IDEA, Part B - Preschool	Child Nutrition Program
Assets					
1110	Cash and temporary investments	\$		\$	\$
1240	Due from other governments		108,585	43,469	22,542
1290	Other receivables				95,458
1310	Inventories, at cost				5,616
1000	Total Assets	\$ 108,585	\$ 43,469	\$	\$ 123,616
Liabilities and Fund Balance					
Liabilities:					
2110	Accounts payable	\$ 4,592	\$ 12,331	\$	\$ 42,027
2160	Accrued wages payable	16,027	10,486		
2170	Due to other funds	86,407	19,635		106,529
2200	Accrued expenditures	1,559	1,017		
2300	Unearned revenues				3,583
2000	Total Liabilities	108,585	43,469		152,139
Fund Balance:					
Nonspendable:					
3410	Inventories				5,616
Restricted for:					
3450	Federal/State Grant Funds				
Committed for:					
3590	Other Purposes				
3600	Unassigned				(34,139)
3000	Total Fund Balances				(28,523)
4000	Total Liabilities and Fund Balance	\$ 108,585	\$ 43,469	\$	\$ 123,616

244	255	263	289	410	414
Career and Technical - Basic Grant	Title II, Part A - Teacher & Principal	Title III, Part A - LEP	Title VI, Part A - Summer School LEP	Instructional Materials Allotment	Texas Reading Initiative
\$	\$ 55,311	\$ 15,853	\$	\$ 56,020	\$ 1,034
<u>\$</u>	<u>\$ 55,311</u>	<u>\$ 15,853</u>	<u>\$</u>	<u>\$ 56,020</u>	<u>\$ 1,034</u>
\$	\$ 128	\$ 4,408	\$	\$ 13,229	\$ 1,034
	55,183	11,445		42,791	
	<u>55,311</u>	<u>15,853</u>		<u>56,020</u>	<u>1,034</u>
<u>\$</u>	<u>\$ 55,311</u>	<u>\$ 15,853</u>	<u>\$</u>	<u>\$ 56,020</u>	<u>\$ 1,034</u>

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HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
ALL NONMAJOR GOVERNMENTAL FUNDS
August 31, 2015

Exhibit H-1
Page 2 of 2

Data Control Codes	429	461	499	699	Total Nonmajor Governmental Funds
Data Control Codes	Read to Succeed	Campus Activity Funds	Locally Funded Special Revenue Fund	Capital Projects Funds	Total Nonmajor Governmental Funds
Assets					
1110	Cash and temporary investments	\$ 781	\$ 65,140	\$ 220	\$ 66,141
1240	Due from other governments				302,814
1290	Other receivables				95,458
1310	Inventories, at cost				5,616
1000	Total Assets	<u>\$ 781</u>	<u>\$ 65,140</u>	<u>\$ 220</u>	<u>\$ 470,029</u>
Liabilities and Fund Balance					
Liabilities:					
2110	Accounts payable	\$	\$	\$	\$ 77,749
2160	Accrued wages payable				26,513
2170	Due to other funds				321,990
2200	Accrued expenditures				2,576
2300	Unearned revenues				3,583
2000	Total Liabilities				<u>432,411</u>
Fund Balance:					
Nonspendable:					
3410	Inventories				5,616
Restricted for:					
3450	Federal/State Grant Funds	781		220	1,001
Committed for:					
3545	Other Purposes		65,140		65,140
3600	Unassigned				(34,139)
3000	Total Fund Balances	<u>781</u>	<u>65,140</u>	<u>220</u>	<u>37,618</u>
4000	Total Liabilities and Fund Balance	<u>\$ 781</u>	<u>\$ 65,140</u>	<u>\$ 220</u>	<u>\$ 470,029</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, 2015

Data Control Codes		211 ESEA Title I, Part A - Improving Basic Programs	224 IDEA, Part B - Formula	225 IDEA, Part B - Preschool	240 Child Nutrition Program
	Revenues				
5700	Local, intermediate, and out-of-state	\$	\$	\$	\$ 66,099
5800	State program revenues				4,046
5900	Federal program revenues	502,302	268,583	3,564	644,377
5020	Total revenues	502,302	268,583	3,564	714,522
	Expenditures				
	Current:				
0011	Instruction	449,233	199,977	3,564	
0013	Curriculum and instructional staff development	53,069	6,724		
0021	Instructional leadership Guidance, counseling and evaluation services		61,882		
0034	Student transportation				
0035	Food services				742,120
6030	Total Expenditures	502,302	268,583	3,564	742,120
1200	Net change in fund balances				(27,598)
0100	Fund Balance - beginning				(925)
3000	Fund Balance - ending	\$	\$	\$	\$ (28,523)

244	255	263	289	410	414
<u>Career and Technical - Basic Grant</u>	<u>Title II, Part A - Teacher & Principal</u>	<u>Title III, Part A - LEP</u>	<u>Title VI, Part A - Summer School LEP</u>	<u>Instructional Materials Allotment</u>	<u>Texas Reading Initiative</u>
\$	\$	\$	\$	\$	\$
				235,888	1,034
22,060	74,967	46,430	3,320		
<u>22,060</u>	<u>74,967</u>	<u>46,430</u>	<u>3,320</u>	<u>235,888</u>	<u>1,034</u>
22,060	46,865	43,430	3,320	235,888	1,034
	9,736	3,000			
	18,366				
<u>22,060</u>	<u>74,967</u>	<u>46,430</u>	<u>3,320</u>	<u>235,888</u>	<u>1,034</u>
<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>	<u>\$</u>

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HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - ALL NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended August 31, 2015

Exhibit H-2
Page 2 of 2

Data Control Codes	429	461	499 Locally Funded Special Revenue Fund	699 Capital Projects Funds	Total Nonmajor Governmental Funds
Read to Succeed	Campus Activity Funds	Locally Funded Special Revenue Fund	Capital Projects Funds	Total Nonmajor Governmental Funds	Total Nonmajor Governmental Funds
Revenues					
5700 Local, intermediate, and out-of-state	\$	\$ 18,538	\$ 2,196	\$	\$ 86,833
5800 State program revenues	781				241,749
5900 Federal program revenues					1,565,603
5020 Total revenues	781	18,538	2,196		1,894,185
Expenditures					
Current:					
0011 Instruction					1,005,371
0013 Curriculum and instructional staff development					72,529
0021 Instructional leadership			1,976		20,342
0031 Guidance, counseling and evaluation services					61,882
0034 Student transportation		2,750			2,750
0035 Food services					742,120
6030 Total Expenditures		2,750	1,976		1,904,994
1200 Net change in fund balances	781	15,788	220		(10,809)
0100 Fund Balance - beginning		49,352			48,427
3000 Fund Balance - ending	\$ 781	\$ 65,140	\$ 220	\$	\$ 37,618

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TEA REQUIRED INFORMATION

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
For the Year Ended August 31, 2015

<u>Last Ten Fiscal Years</u>	<u>Tax Rates</u>		<u>Net Assessed/Appraised Value For School Tax Purposes</u>	<u>Beginning Balance 9/1/14</u>
	<u>Maintenance</u>	<u>Debt Service</u>		
2006 and prior	Various	Various	Various	\$ 225,089
2007	1.370000	0.220000	263,547,938	44,142
2008	1.040000	0.340000	300,609,652	41,186
2009	1.040000	0.340000	333,069,868	40,341
2010	1.040000	0.340000	355,493,922	78,873
2011	1.040000	0.340000	407,611,014	102,425
2012	1.040000	0.340000	416,930,942	132,177
2013	1.170000	0.210000	426,002,298	172,971
2014	1.170000	0.210000	439,268,623	312,401
2015	1.170000	0.210000	461,332,826	
1000 Totals				<u>\$ 1,149,605</u>

Exhibit J-1

20	31	32	40	50
<u>Current Year's Total Levy</u>	<u>Maintenance Total Collections</u>	<u>Debt Service Total Collections</u>	<u>Entire Year's Adjustments</u>	<u>Ending Balance 8/31/15</u>
\$	\$ 11,915	\$ 1,577	\$ 5,454	\$ 217,051
	3,924	630	(26)	39,562
	4,788	1,565	(174)	34,658
	6,672	2,181	(152)	31,336
	11,767	3,847	(187)	63,072
	25,841	8,448	(965)	67,170
	35,305	11,542	(1,623)	83,707
	55,390	9,942	(3,205)	104,434
	137,821	24,737	(6,527)	143,316
<u>6,366,393</u>	<u>5,168,457</u>	<u>927,672</u>	<u>2</u>	<u>270,266</u>
<u>\$ 6,366,393</u>	<u>\$ 5,461,881</u>	<u>\$ 992,142</u>	<u>\$ (7,404)</u>	<u>\$ 1,054,572</u>

Total taxes receivable per Exhibit C-1 \$ 1,054,572

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
CHILD NUTRITION FUND
For the Year Ended August 31, 2015

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	\$ 51,900	\$ 51,900	\$ 66,099	\$ 14,199
5800	State Program Revenues	4,335	4,335	4,046	(289)
5900	Federal Program Revenues	651,050	651,050	644,377	(6,673)
5020	Total Revenues	<u>707,285</u>	<u>707,285</u>	<u>714,522</u>	<u>7,237</u>
	Expenditures				
	Current:				
0035	Food Services	740,000	740,000	742,120	(2,120) *
6030	Total Expenditures	<u>740,000</u>	<u>740,000</u>	<u>742,120</u>	<u>(2,120)</u>
1100	Excess (deficiency) of revenues over expenditures	<u>(32,715)</u>	<u>(32,715)</u>	<u>(27,598)</u>	<u>5,117</u>
	Other Financing Sources (Uses)				
7915	Transfers In	32,715	32,715		(32,715)
7080	Total other financing sources (uses)	<u>32,715</u>	<u>32,715</u>		<u>(32,715)</u>
1200	Net change in fund balance			(27,598)	(27,598)
0100	Fund Balance - beginning	<u>(925)</u>	<u>(925)</u>	<u>(925)</u>	
3000	Fund Balance - ending	<u>\$ (925)</u>	<u>\$ (925)</u>	<u>\$ (28,523)</u>	<u>\$ (27,598)</u>

* Expenditures exceeding appropriation at the function level.

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
For the Year Ended August 31, 2015

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	\$ 926,105	\$ 926,105	\$ 1,154,894	\$ 228,789
5800	State Program Revenues	119,989	119,989	166,027	46,038
5020	Total Revenues	<u>1,046,094</u>	<u>1,046,094</u>	<u>1,320,921</u>	<u>274,827</u>
Expenditures					
Debt Service:					
0071	Bond Principal	536,900	536,900	536,903	(3)
0072	Interest on Bond	1,052,317	1,072,242	1,008,544	63,698
0073	Bond Issuance Costs and Fees	1,650	88,154	125,026	(36,872) *
6030	Total Expenditures	<u>1,590,867</u>	<u>1,697,296</u>	<u>1,670,473</u>	<u>26,823</u>
1100	Excess (deficiency) of revenues over expenditures	(544,773)	(651,202)	(349,552)	301,650
Other Financing Sources (Uses)					
7911	Issuance of bonds		5,686,429	5,155,000	(531,429)
7915	Transfers in	544,773	544,773		(544,773)
7916	Premium on issuance of bonds			567,696	567,696
8940	Payments to refunding escrow agent		(5,580,000)	(5,598,071)	(18,071) *
7080	Total other financing sources (uses)	<u>544,773</u>	<u>651,202</u>	<u>124,625</u>	<u>(526,577)</u>
1200	Net change in fund balance			(224,927)	(224,927)
0100	Fund Balance - beginning	<u>486,166</u>	<u>486,166</u>	<u>486,166</u>	
3000	Fund Balance - ending	<u>\$ 486,166</u>	<u>\$ 486,166</u>	<u>\$ 261,239</u>	<u>\$ (224,927)</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, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 10, 2016.

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 2013-004, 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
February 10, 2016

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, 2015. 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.

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, 2015.

To the Board of Trustees
Hempstead Independent School District

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.

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
February 10, 2016

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Year Ended August 31, 2015

I. Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unmodified
Internal control over financial reporting:	
Material weakness(es) identified?	Yes, Finding # 2013-004, 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, and # 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, 2015

II. Financial Statement Findings

Material Weakness

Finding # 2013-004 – Payroll Control Activities

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

Condition: While gaining an understanding of internal controls, we noted that the Payroll Department has the ability to modify pay rates.

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

Effect: Unauthorized changes may be made to pay rates, causing payroll expenditures to be materially misstated and the misstatement might not be detected by management on a timely manner.

Recommendation: To mitigate the risk that unauthorized pay rate changes may be made the Payroll Department should not have the ability to modify pay rates; the responsibility to modify pay rates should rely in the HR department. If the District decides to leave the responsibility to modify pay rates in the Payroll Department, the HR departments should document its review of pay rates after each payroll run and the process should be formalized.

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: While gaining an understanding of internal controls, we noted that there is no segregation of duties between the set-up of vendors and expenditures/accounts payable processing, and the vendor listing is not reviewed periodically for duplicates or inactivity.

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, 2015

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. 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).

Condition: During our review of compliance with the Public Funds Investment Act, we noted that the District did not adopt or review an investment policy for fiscal year 2015; the policy was reviewed on August 17, 2015, prior to this date the latest policy available for our review was dated September 22, 2011. The quarterly investment reports did not include all of the required elements as listed in the Act.

Cause: Proper audit trail was not maintained and the District personnel was not monitoring 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 the General Fund, the Child Nutrition Fund, and the Debt Service 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, 2015

II. Financial Statement Findings (continued)

Compliance and Other Matters (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 55% of the Foundation School Program allotment designated for Gifted and Talented on that specific program.

Condition: The District did not expend the required percentage of the Foundation School Allotment for Gifted and Talented by \$3,448 or 12.5%, as required by the Texas Education Agency.

Cause: Proper audit trail was not maintained and the District personnel was not monitoring 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 Gifted and Talented 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 one vendor with purchases exceeding \$50,000.

Cause: Proper audit trail was not maintained and the District personnel was not monitoring 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, 2015

III. Federal Award Findings and Questioned Costs

Finding # 2013-012 – ESEA, Title I Part A – Procurement and Suspension and Debarment (CFDA 84.010)

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: District personnel was not monitoring this 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 (CFDA 10.553 and 10.555)

Criteria: The District is required to comply with the eligibility requirements contained in the USDA Child Nutrition Programs – Income Eligibility Guidelines and maintain supporting documentation for the eligibility determination of students.

Condition: Per our review of selected student applications in three instances, management was unable to locate the applications to support the three students' income eligibility status.

Cause: Proper audit trail was not maintained by the District personnel.

Effect: The lack of support of students' income eligibility status 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, 2015

III. Federal Award Findings and Questioned Costs (continued)

**Finding # 2013-016 – Child Nutrition Cluster – Procurement and Suspension and Debarment
(CFDA 10.553 and 10.555)**

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: District personnel was not monitoring this 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, 2015

IV. Status of Prior Year Findings and Questioned Cost

Finding # 2013-001: Year-End Close Out Procedures	Status: We noted improvement in this area during the current year audit.
Finding # 2013-002: Journal entry review	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 # 2014-001: Accounts Payable Control Activities	Status: Similar instances were noted during the current year audit, see Finding # 2014-001.
Finding # 2013-005: Investment Policy	Status: Partially resolved; 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: Similar instances were noted during the current year audit, see Finding # 2013-007.
Finding # 2013-008: Competitive Procurement Procedures	Status: This situation continues to exist, see Finding # 2013-008.
Finding # 2013-012: ESEA, Title I Part A – Procurement and Suspension and Debarment (CFDA 84.010)	Status: This situation continues to exist, see Finding # 2013-012.
Finding # 2013-015: Child Nutrition Cluster – Eligibility (CFDA 10.553 and 10.555)	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 (CFDA 10.553 and 10.555)	Status: This situation continues to exist, see Finding # 2013-016.

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For The Year Ended August 31, 2015

V. Corrective Action Plan

Finding # 2013-004 – Payroll Control Activities

Response: The new administration has already established a procedure where payroll pre-post reports are being reviewed by the CFO prior to running payroll checks to test for errors and any unauthorized changes. This procedure will be updated in the Business Office Procedures Manual.

Contact Person: Kevin Mathis, Chief Financial Officer

Estimated Completion Date: August 31, 2016

Finding # 2014-001 – Accounts Payable Control Activities

Response: The new administration has separated the responsibility of setting up new vendors from the Accounts Payable clerk. All new vendors will be set up by the CFO after all proper documentation has been received and completed correctly by the vendor. In addition, a review of current vendors will occur annually for duplicity and inactivity.

Contact Person: Kevin Mathis, Chief Financial Officer

Estimated Completion Date: August 31, 2016

Finding # 2013-005 – Investment Policy

Response: The investment policy was reviewed August 17, 2015, and will be reviewed and/or updated annually. Also, the investment reports will be completed quarterly with all the elements as listed in the Act.

Contact Person: Kevin Mathis, Chief Financial Officer

Estimated Completion Date: August 31, 2016

Finding # 2013-006 – Expenditures in Excess of Appropriations

Response: All expenditures will be monitored throughout the year to avoid budgets at the functional level from exceeding the appropriations.

Contact Person: Kevin Mathis, Chief Financial Officer

Estimated Completion Date: August 31, 2016

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For The Year Ended August 31, 2015

V. Corrective Action Plan (continued)

Finding # 2013-007 – State Mandated Program Spending Requirement

Response: Management 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: Kevin Mathis, Chief Financial Officer

Estimated Completion Date: August 31, 2016

Finding # 2013-008 – Competitive Procurement Procedures

Response: Management will ensure that procurement laws are followed and that all documentation is kept appropriately.

Contact Person: Kevin Mathis, Chief Financial Officer

Estimated Completion Date: August 31, 2016

Finding # 2013-012 – ESEA, Title I Part A – Procurement and Suspension and Debarment

Response: First, a Debarment and Suspension form has been made a part of the new vendor set-up packet and must be completed as a new vendor. Second, the CFO, who is setting up all new vendors, is checking each new vendor against the list of vendors who are debarred or suspended in accordance with Circular A-102 Common Rule Section 80.35 (34 CFR 80.35) and Section 80.36 (34 CFR 80.36) and, therefore, restricted from receiving any federal funding for goods or services. Third, the Debarred Vendor List will be printed no less than monthly and compared to the list of approved vendors for the district for determining if any current vendors should be discontinued.

Contact Person: Kevin Mathis, Chief Financial Officer

Estimated Completion Date: August 31, 2016

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 maintained and filled out completely, and that all eligible students are fed.

Contact Person: Mr. Floyd Richard, Director of Operations

Estimated Completion Date: August 31, 2016

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (continued)
For The Year Ended August 31, 2015

Finding # 2013-016 – Child Nutrition Cluster – Procurement and Suspension and Debarment

Response: First, a Debarment and Suspension form has been made a part of the new vendor set-up packet and must be completed as a new vendor. Second, the CFO, who is setting up all new vendors, is checking each new vendor against the list of vendors who are debarred or suspended in accordance with Circular A-102 Common Rule Section 80.35 (34 CFR 80.35) and Section 80.36 (34 CFR 80.36) and therefore, restricted from receiving any federal funding for goods or services. Third, the Debarred Vendor List will be printed no less than monthly and compared to the list of approved vendors for the district for determining if any current vendors should be discontinued.

Contact Person: Kevin Mathis, Chief Financial Officer

Estimated Completion Date: August 31, 2016

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2015

Exhibit K-1

(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	15610101237902	\$ 502,302
<i>IDEA - Part B, Formula*</i>	84.027A	156600012379026000	268,583
<i>IDEA - Part B, Preschool*</i>	84.173A	156610012379026000	3,564
<i>Career and Technical Basic - Grant</i>	84.048A	15420006237902	22,060
<i>ESEA, Title II, Part A - Teacher & Principal Training & Recruiting</i>	84.367A	15694501237902	74,967
<i>ESEA Title III, Part A, English Language Acquisition</i>	84.365A	15671001237902	46,430
<i>Title VI, Part A - Summer School LEP</i>	84.369A	69551402	<u>3,320</u>
Total U.S. Department of Education			<u><u>921,226</u></u>
U.S. Department of Agriculture			
Passed Through State Department of Education:			
Cash assistance:			
<i>School Breakfast Program**</i>	10.553	71401501	145,341
<i>National School Lunch Program**</i>	10.555	71301501	<u>457,079</u>
Total Passed Through State Department of Education			<u><u>602,420</u></u>
Passed Through Texas Department of Agriculture:			
Non-cash assistance:			
<i>National School Lunch Program - USDA Commodities**</i>	10.555	CE # 01113	<u>41,957</u>
Total Passed Through Texas Department of Agriculture			<u>41,957</u>
Total U.S. Department of Agriculture			<u><u>644,377</u></u>
Total Expenditures of Federal Awards			<u><u>\$ 1,565,603</u></u>

* Special Education Cluster (IDEA)

** Child Nutrition Cluster

Note 1 - Basis of Accounting

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

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

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

Note 2 - Basis of Presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2015. 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)	\$ 1,703,597
SHARS	(137,994)
Total Federal Awards on Exhibit K-1	<u>\$ 1,565,603</u>

Note 4 - General Fund Federal Revenues

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

SHARS	\$ 137,994
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