

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED**  
**AUGUST 31, 2017**

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED AUGUST 31, 2017

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CERTIFICATE OF BOARD

Hallsville Independent School District  
Name of School District

Harrison  
County

102904  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one)   X   approved        disapproved for the year ended August 31, 2017 at a meeting of the Board of Trustees of such school district on the 22<sup>nd</sup> day of January, 2018.

(s) Troy Crafton  
Signature of Board Secretary

(s) Jay Nelson  
Signature of Board President

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

## FINANCIAL SECTION



# SQUYRES, JOHNSON, SQUYRES

*Certified Public Accountants*

## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Hallsville Independent School District  
PO Box 810  
Hallsville, Texas 75650

Members of the Board:

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hallsville Independent School District (the District) as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

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

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and aggregate remaining fund information of the District as of August 31, 2017, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 6 through 13 and Exhibits G-1, G-2, and G-3 on pages 46 to 48 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining nonmajor fund financial statements and the TEA required schedules, Exhibits J-1, J-2 and J-3, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulation*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2018, 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 that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

  
Certified Public Accountants

Tyler, Texas  
January 19, 2018

## REQUIRED SUPPLEMENTARY INFORMATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Hallsville Independent School District (the District), discuss and analyze the District's financial performance for the fiscal year ended August 31, 2017. Please read it in conjunction with the independent auditor's report, and the District's financial statements that follow this section.

### FINANCIAL HIGHLIGHTS

- The District's net position as of 8-31-2017 was \$49,608,252.
- During the year, the District had general fund expenditures of \$38,751,402 and revenues of \$41,005,264 for a net excess of \$2,253,862.
- The General Fund ended the year with a fund balance of \$11,188,900.

### USING THIS ANNUAL REPORT

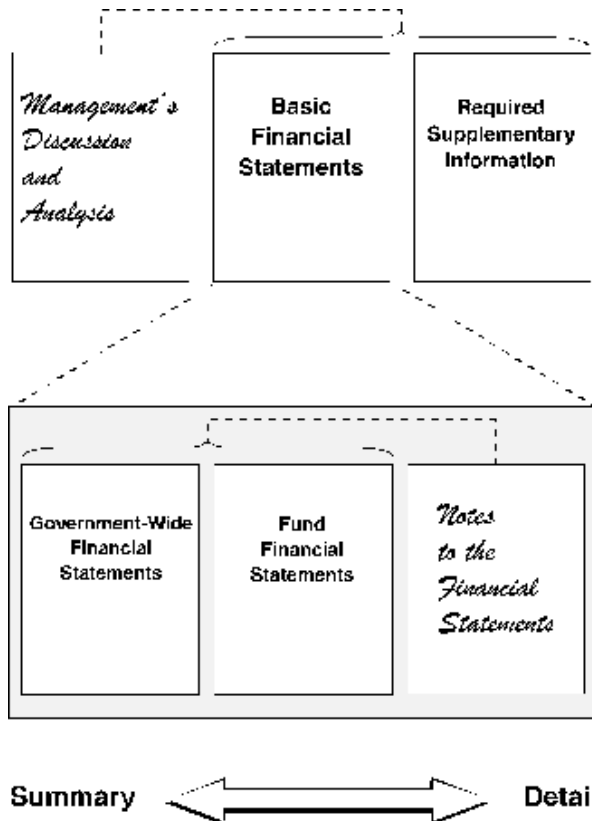
This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were

financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The fiduciary statements provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

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

The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.





## **Reporting the District as a Whole**

### ***The Statement of Net Position and the Statement of Activities – Government-Wide Financial Statements***

These statements are designed to provide readers with a broad overview of the District's finances. The Statement of Net Position includes all the District's assets, liabilities, and deferred outflows and inflows of resources at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These statements apply the accrual basis of accounting which is the basis used by private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The District's revenues are divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the District and grants provided by various sources to assist certain segments of children (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in it. The District's net position (the difference between assets/deferred outflows and liabilities/deferred inflows) provides one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non-financial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

The District only has governmental activities to report in the government wide financial statements. The District has no business-type activities and no component units for which it is financially accountable.

## **Reporting the District's Most Significant Funds**

### ***Fund Financial Statements***

The fund financial statements provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds and the District's administration establishes other funds to help it control and manage money for particular purposes.

- Governmental funds—Most of the District's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the District's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.

## The District as Trustee

### *Reporting the District's Fiduciary Responsibilities*

The District is the trustee, or fiduciary, for money raised by student activities and administrative personnel. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Comparative government-wide financial information serves as a useful indicator of the government's financial position. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental activities. The District has no business-type activities.

### Net Position

Table I shows the comparative Net Position of Hallsville ISD as of August 31, 2017 and August 31, 2016. Net Position of the District's governmental activities is \$49,608,252 an increase of 6.7%. Of the Net Position amount, \$38,705,894 is net investment in capital assets. The decrease in the net investment in capital assets category is due to the amount of depreciation in excess of the acquisition of capital assets during the year. The District uses capital assets to provide services to students; consequently, these assets are not available for future spending. The resources to repay the related debt are acquired through taxes. The restricted asset balance of \$2,177,883 represents amounts in the debt service, campus activities, state grants, and school nutrition accounts that are legally restricted for specific purposes. Unrestricted net position totaled \$8,724,475 at August 31, 2017 compared to \$2,387,387 at August 31, 2016. These assets represent resources available for future operations, long-term commitments and emergencies of the District.

Table I  
NET POSITION  
Governmental Funds

	2017	2016	% Change
Current and Other Assets	\$ 17,539,387	\$ 15,884,793	10%
Capital Assets	112,117,900	115,334,200	-3%
Deferred Outflows of Resources	4,257,457	4,901,472	-13%
Total Assets/Deferred Outflows of Resources	\$ 133,914,744	\$ 136,120,465	-2%
Long-term Liabilities	\$ 76,238,225	\$ 80,885,659	-6%
Other Liabilities	7,635,208	8,190,963	-7%
Deferred Inflows of Resources	433,059	537,192	-19%
Total Liabilities/Deferred Inflows of Resources	\$ 84,306,492	\$ 89,613,814	-6%
Net Investment in Capital Assets	\$ 38,705,894	\$ 41,815,396	-7%
Restricted	2,177,883	2,303,868	-5%
Unrestricted	8,724,475	2,387,387	265%
Total Net Position	\$ 49,608,252	\$ 46,506,651	7%

## Changes in Net Position

Table II presents a comparative summary of the revenues, expenses, and changes in net position for the year ended August 31, 2017 and August 31, 2016.

Table II CHANGES IN NET POSITION Governmental Funds				
	<u>2017</u>	<u>2016</u>	<u>% Change</u>	
Revenues:				
Program revenues:				
Charges for services	\$ 2,772,760	\$ 3,409,088	-19%	
Operating grants and contributions	6,310,457	8,388,229	-25%	
General revenues:				
Maintenance and operations taxes	24,771,893	25,419,369	-3%	
Debt service taxes	7,860,330	7,954,320	-1%	
State Aid and grants and contributions not restricted to specific functions	13,798,366	10,973,686	26%	
Investment earnings	166,487	84,497	97%	
Miscellaneous local and intermediate revenue and special items	560,941	737,181	-24%	
Total Revenue	\$ 56,241,234	\$ 56,966,370	-1%	
Expenses:				
Instruction, curriculum and media services	\$ 27,439,061	\$ 28,370,334	-3%	
Instructional and school leadership	3,846,467	3,876,878	-1%	
Student support services	4,467,449	4,715,305	-5%	
Child nutrition	1,866,501	1,840,794	1%	
Extracurricular activities	2,090,393	2,424,477	-14%	
General Administration	1,504,389	1,612,752	-7%	
Plant maintenance, security & data processing	6,208,336	7,590,494	-18%	
Community services	52,380	86,417	-39%	
Debt service	3,925,617	4,083,830	-4%	
Capital Outlay	429	-	0%	
Payments to member districts	1,058,611	1,018,144	4%	
Other intergovernmental charges	680,000	554,204	23%	
Total Expenses	\$ 53,139,633	\$ 56,173,629	-5%	
Increase/(Decrease) in net position	\$ 3,101,601	\$ 792,741		

The main sources of revenue for the District are property taxes and state funds. Property taxes for the general operations and debt service operations represent 58.0% of the government wide resources. The percentage of total funding provided by property taxes decreased by 0.6% from 58.6% in 2015-16 to 58.0% in 2016-17. This percentage decrease was due to an increase in funding from state revenue and operating grants and contributions. The total tax rate for both 2015-16 and 2016-17 was \$1.37 with \$1.04 for maintenance and operations and \$.33 for debt service.

As shown in Table II, the cost of all governmental activities this year was \$53,139,633. This is an overall decrease from the previous year. The district expenses decreased in most areas due to efforts made by the district to reduce costs to bolster net position. The increase in payments to member districts is due in part, to an increase in the amount distributed to the District, as an SSA member district, for the purchase of a Special Education bus, to be used to serve HISD students being served by the Harrison County SSA.

The largest expenses of the District were for instruction, curriculum and media services. Expenses for these areas constitute over 51.6% of the total expenses of the district, a decrease of 5%.

The 18% decrease in the plant maintenance, security, and data processing category are due to the district's efforts in 2016-17 to decrease expenditures in those categories that do not directly impact the classroom, in order to reduce costs and increase the district's net position, as was discussed previously.

Expenditures in the community services category decreased by 39% and reflects changes in expenditure levels due to the elimination of a position within the category.

For 2016-17 the statements reflect an increase in net position of \$3,101,601.

## **THE DISTRICT'S FUNDS**

Governmental fund reporting focuses primarily on the sources, uses and balances of current financial resources. The general fund and the debt service fund are the major funds of the District. All other governmental funds are combined in the statements. The Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance use the modified accrual basis of accounting for the governmental funds of the District.

As the District completed the year, its governmental funds reported a combined fund balance of \$13,366,783, which is an increase from last year's total of \$11,025,955. The increase included an increase of \$89,565 in the debt service fund, a decrease in other funds of \$60,710, and an increase in general fund of \$2,311,973. The total unassigned fund balance in the general fund is \$11,006,462. The remaining fund balances in the report include \$485,517 restricted for federal and state grant funds, \$1,008,974 restricted for debt service and \$550,706 committed to capital expenditures, campus activity and other groups.

Total governmental funds expenditures for the year ended August 31, 2017 decreased to \$53,349,362. Table III shows a comparison of the expenditures for the years ended August 31, 2017 and August 31, 2016.

Table III  
GOVERNMENTAL FUND (MODIFIED ACCRUAL BASIS) EXPENDITURES

	<u>2017</u>		<u>2016</u>	<u>% Change</u>
Instruction, curriculum and media services	\$ 24,338,328	\$	24,836,189	-2%
Instructional and school leadership	3,388,810		3,383,601	0%
Student support services	4,206,478		4,425,053	-5%
School Nutrition	1,769,987		1,811,170	-2%
Cocurricular activities	1,994,458		2,597,042	-23%
General administration	1,360,972		1,461,655	-7%
Plant maintenance, security & data processing	5,935,592		7,118,294	-17%
Community services	48,467		76,453	-37%
Debt service	8,567,230		8,535,984	0%
Facilities acquisition and construction	429		-	0%
Payments to fiscal agent	1,058,611		1,018,144	4%
Other Intergovernmental Charges	680,000		554,204	23%
Total Expenditures	<u>\$ 53,349,362</u>	\$	<u>55,817,789</u>	-4%

The overall change in expenditures in the governmental fund financial statements was 4% for the 2016-17 year.

A major difference between the expenditures as reported on Table II and Table III is the treatment of expenditures related to fixed assets and debt service. On the modified accrual basis (Table III) long-term assets show up as expenditures. When these records are converted to full accrual (Table II) these items are de-expended and capitalized as assets on the balance sheet and depreciation is recorded to expense the items over the useful life of the asset. For long-term debt, on the modified accrual basis, debt principal and interest are recorded as expenditures while on the full accrual basis the principal payments are de-expended during the conversion, leaving only interest as an expenditure.

The difference in the treatment of fixed asset purchases between the two methods accounts for many of the differences between the absolute and percentage changes among the various categories on Tables II and III.

The explanation for the changes in the other categories mirror the explanations in the government wide section of the report and therefore the explanations contained in that section of this report are applicable to this section.

## GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the Board of Trustees revised the District's budget several times. The budget was amended to:

- Provide for payroll allocations between functions.
- Provide for the purchase of an additional special needs transportation vehicle.
- Provide for purchases of additional supplies for curriculum and assessment.
- Provide for purchases of additional intermediate campus playground equipment.
- Provide for purchases of additional fees and equipment for extracurricular activities.
- Provide for purchases of additional licensing for District libraries.
- Provide for payment of note payment and related donation revenue.
- Provide for purchases of additional expenditures in food services.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2016-17, the District had \$156,531,309 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, technology, and maintenance. This amount represents a net increase of \$426,669. The increase includes the purchase of transportation and building equipment. More detailed information about the District's capital assets is presented in Section III, Note E to the financial statements.

### **Debt**

At year-end, the District had \$73,125,000 in bonds outstanding versus \$77,700,000 last year. Debt activity for the year included premium amortization and the scheduled retirement of debt from the 2013 bond issue. Other obligations include \$241,665 in outstanding notes payable. More detailed information about the District's long-term liabilities is presented in Section III, Note F to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The District's elected and appointed officials considered many factors when setting the fiscal year 2017-18 budget and tax rates. The funding formula implemented by the 85<sup>th</sup> Legislature for the biennium was used for developing the 2017-18 budget. The same basic allotment amount was included in the formula for the 2016-17 and 2017-18 school year, therefore there were no significant formula increases in funding for the 2017-18 school year. Additional consideration was made for the 2017-18 budget, due to the expiration of the ASATR state funding component on September 1, 2017, which the District had received since the 2006-07. The Legislature has provided transition hardship relief for affected Districts, which, for 2017-18 amounts to about 25% of 2016-17 ASATR funding earned.

The District will face future financial challenges due to the state funding formulas adopted by the Legislature during the 2015 and 2017 legislative sessions. Due to the strong political nature of public school funding in the State of Texas, it is unclear the potential changes that may occur in the 2019 legislative session. The District's budgeting approach will remain conservative, but excellence for all students will remain the primary goal.

The refined average daily attendance used for estimating 2017-18 revenues was 4,775. The District's average daily attendance has remained stable, with slight growth over the past 5 years. The ADA of the district will be closely monitored during the 2017-18 school year and appropriate budget adjustments will be made for any increase or decrease during the year. The District will also continue to accept transfer students during the 2017-18 fiscal year.

The certified appraisal rolls as determined by Harrison Central Appraisal District for Hallsville ISD indicated a 3.5099% increase for the 2017-18 school year. The district assessed a maintenance and operations (M&O) rate of \$1.04 and a debt service rate of \$.33 for the 2017-18 budget. A budget with revenues of \$40,091,672 was adopted for the maintenance and operations of the district for 2017-18.

Every effort was made during the budget process to provide an excellent education to the students of Hallsville ISD, and to ensure the education they receive is a source of pride for the staff, parents, students and community. The dedicated employees of Hallsville ISD will continue to strive to provide a high quality of education to the students of the District.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's Business Office, at Hallsville Independent School District, P.O. Box 810, Hallsville, Texas, 75650.

## BASIC FINANCIAL STATEMENTS



HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
AUGUST 31, 2017

EXHIBIT A-1

Data		Primary Government
Control		Governmental
Codes		Activities
<hr/>		
ASSETS		
1110	Cash and Cash Equivalents	\$ 11,829,337
1120	Current Investments	2,009,226
1220	Property Taxes Receivable (Delinquent)	1,631,852
1230	Allowance for Uncollectible Taxes	(47,969)
1240	Due from Other Governments	1,882,574
1290	Other Receivables, net	83,683
1300	Inventories	140,588
1410	Prepayments	10,096
	Capital Assets:	
1510	Land	4,759,235
1520	Buildings, Net	105,518,733
1530	Furniture and Equipment, Net	1,839,932
1000	Total Assets	<hr/> 129,657,287 <hr/>
DEFERRED OUTFLOWS OF RESOURCES		
1701	Deferred Charge for Refunding	187,306
1705	Deferred Outflow Related to TRS	4,070,151
1700	Total Deferred Outflows of Resources	<hr/> 4,257,457 <hr/>
LIABILITIES		
2110	Accounts Payable	439,130
2140	Interest Payable	171,353
2150	Payroll Deductions & Withholdings	(12,506)
2160	Accrued Wages Payable	1,618,305
2177	Due to Fiduciary Funds	1,110
2180	Due to Other Governments	42
2200	Accrued Expenses	236,610
2300	Unearned Revenue	306,030
	Noncurrent Liabilities	
2501	Due Within One Year	4,875,134
2502	Due in More Than One Year	68,724,179
2540	Net Pension Liability (District's Share)	7,514,046
2000	Total Liabilities	<hr/> 83,873,433 <hr/>
DEFERRED INFLOWS OF RESOURCES		
2605	Deferred Inflow Related to TRS	433,059
2600	Total Deferred Inflows of Resources	<hr/> 433,059 <hr/>
NET POSITION		
3200	Net Investment in Capital Assets	38,705,894
3820	Restricted for Federal and State Programs	517,034
3850	Restricted for Debt Service	1,008,974
3870	Restricted for Campus Activities	469,700
3890	Restricted for Other Purposes	182,175
3900	Unrestricted	8,724,475
3000	Total Net Position	<hr/> \$ 49,608,252 <hr/>

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

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT B-1

Net (Expense)  
Revenue and  
Changes in Net  
Position

Data Control Codes	1	Program Revenues		6
		3	4	
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities
<b>Primary Government:</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
11 Instruction	\$ 26,705,792	\$ 753,503	\$ 3,142,457	\$ (22,809,832)
12 Instructional Resources and Media Services	562,516	22,120	24,264	(516,132)
13 Curriculum and Staff Development	170,753	-	100,526	(70,227)
21 Instructional Leadership	1,547,813	183,123	186,592	(1,178,098)
23 School Leadership	2,298,654	15,584	113,837	(2,169,233)
31 Guidance, Counseling and Evaluation Services	1,996,958	437,290	560,151	(999,517)
32 Social Work Services	86,175	-	4,879	(81,296)
33 Health Services	399,011	-	22,861	(376,150)
34 Student (Pupil) Transportation	1,985,305	93,774	99,689	(1,791,842)
35 Food Services	1,866,501	638,449	1,282,033	53,981
36 Extracurricular Activities	2,090,393	619,556	43,783	(1,427,054)
41 General Administration	1,504,389	4,340	50,555	(1,449,494)
51 Facilities Maintenance and Operations	4,940,764	5,021	147,652	(4,788,091)
52 Security and Monitoring Services	519,816	-	28,344	(491,472)
53 Data Processing Services	747,756	-	31,085	(716,671)
61 Community Services	52,380	-	9,362	(43,018)
72 Debt Service - Interest on Long Term Debt	3,924,417	-	-	(3,924,417)
73 Debt Service - Bond Issuance Cost and Fees	1,200	-	-	(1,200)
81 Capital Outlay	429	-	-	(429)
93 Payments related to Shared Services Arrangements	1,058,611	-	462,387	(596,224)
99 Other Intergovernmental Charges	680,000	-	-	(680,000)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 53,139,633	\$ 2,772,760	\$ 6,310,457	(44,056,416)

Data Control Codes	General Revenues: Taxes:		
MT	Property Taxes, Levied for General Purposes		24,771,893
DT	Property Taxes, Levied for Debt Service		7,860,330
SF	State Aid - Formula Grants		11,897,282
GC	Grants and Contributions not Restricted		1,901,084
IE	Investment Earnings		166,487
MI	Miscellaneous Local and Intermediate Revenue		502,830
S1	Special Item -		58,111
TR	Total General Revenues, Special Items		47,158,017
CN	Change in Net Position		3,101,601
NB	Net Position - Beginning		46,506,651
NE	Net Position - Ending		\$ 49,608,252

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

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>				
1110 Cash and Cash Equivalents	\$ 9,284,170	\$ 1,273,220	\$ 1,271,947	\$ 11,829,337
1120 Investments - Current	2,009,226	-	-	2,009,226
1220 Property Taxes - Delinquent	1,258,866	372,986	-	1,631,852
1230 Allowance for Uncollectible Taxes (Credit)	(37,456)	(10,513)	-	(47,969)
1240 Receivables from Other Governments	1,597,967	8,086	276,521	1,882,574
1260 Due from Other Funds	311,164	-	121,569	432,733
1290 Other Receivables	58,131	-	25,552	83,683
1300 Inventories	91,336	-	49,252	140,588
1410 Prepayments	10,096	-	-	10,096
1000 Total Assets	<u>\$ 14,583,500</u>	<u>\$ 1,643,779</u>	<u>\$ 1,744,841</u>	<u>\$ 17,972,120</u>
<b>LIABILITIES</b>				
2110 Accounts Payable	\$ 255,163	\$ -	\$ 183,967	\$ 439,130
2150 Payroll Deductions and Withholdings Payable	(12,506)	-	-	(12,506)
2160 Accrued Wages Payable	1,444,271	-	174,034	1,618,305
2170 Due to Other Funds	5,826	272,332	155,685	433,843
2180 Due to Other Governments	-	-	42	42
2200 Accrued Expenditures	236,610	-	-	236,610
2300 Unearned Revenues	243,826	-	62,204	306,030
2000 Total Liabilities	<u>2,173,190</u>	<u>272,332</u>	<u>575,932</u>	<u>3,021,454</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
2601 Unavailable Revenue - Property Taxes	<u>1,221,410</u>	<u>362,473</u>	<u>-</u>	<u>1,583,883</u>
2600 Total Deferred Inflows of Resources	<u>1,221,410</u>	<u>362,473</u>	<u>-</u>	<u>1,583,883</u>
<b>FUND BALANCES</b>				
Nonspendable Fund Balance:				
3410 Inventories	91,336	-	31,517	122,853
3430 Prepaid Items	10,096	-	-	10,096
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	485,517	485,517
3480 Retirement of Long-Term Debt	-	1,008,974	-	1,008,974
3490 Other Restricted Fund Balance	-	-	182,175	182,175
Committed Fund Balance:				
3530 Capital Expenditures for Equipment	31,006	-	-	31,006
3545 Other Committed Fund Balance	50,000	-	469,700	519,700
3600 Unassigned Fund Balance	11,006,462	-	-	11,006,462
3000 Total Fund Balances	<u>11,188,900</u>	<u>1,008,974</u>	<u>1,168,909</u>	<u>13,366,783</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 14,583,500</u>	<u>\$ 1,643,779</u>	<u>\$ 1,744,841</u>	<u>\$ 17,972,120</u>

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

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET POSITION  
AUGUST 31, 2017

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<b>Total Fund Balances - Governmental Funds (from Exhibit C-1)</b>	\$ 13,366,783
Capital assets used in governmental activities are not reported in the funds.	112,117,900
Net property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	1,583,883
Payables for bond principal which are not due in the current period are not reported in the funds	(73,125,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(171,353)
Payables for notes which are not due in the current period are not reported in the funds.	(241,665)
Payables for contracts which are not due in the current period are not reported in the funds.	(232,648)
The deferred loss on defeasance of debt is not reported in the funds.	187,306
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(7,514,046)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(433,059)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	<u>4,070,151</u>
<b>Net Position of Governmental Activities - Statement of Net Position (see Exhibit A-1)</b>	<u><u>\$ 49,608,252</u></u>

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

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 25,817,213	\$ 7,862,041	\$ 2,280,107	\$ 35,959,361
5800 State Program Revenues	13,286,967	127,715	574,494	13,989,176
5900 Federal Program Revenues	1,901,084	-	3,782,458	5,683,542
5020 Total Revenues	41,005,264	7,989,756	6,637,059	55,632,079
EXPENDITURES:				
Current:				
0011 Instruction	21,337,185	-	2,319,171	23,656,356
0012 Instructional Resources and Media Services	488,794	-	22,461	511,255
0013 Curriculum and Instructional Staff Development	70,215	-	100,502	170,717
0021 Instructional Leadership	1,046,408	-	327,137	1,373,545
0023 School Leadership	2,015,265	-	-	2,015,265
0031 Guidance, Counseling and Evaluation Services	795,917	-	967,926	1,763,843
0032 Social Work Services	78,001	-	-	78,001
0033 Health Services	351,462	-	-	351,462
0034 Student (Pupil) Transportation	2,013,172	-	-	2,013,172
0035 Food Services	4,716	-	1,765,271	1,769,987
0036 Extracurricular Activities	1,358,858	-	635,600	1,994,458
0041 General Administration	1,359,972	-	1,000	1,360,972
0051 Facilities Maintenance and Operations	4,757,776	-	297	4,758,073
0052 Security and Monitoring Services	461,746	-	-	461,746
0053 Data Processing Services	715,773	-	-	715,773
0061 Community Services	42,329	-	6,138	48,467
Debt Service:				
0071 Principal on Long Term Debt	516,927	4,114,999	-	4,631,926
0072 Interest on Long Term Debt	148,912	3,785,192	-	3,934,104
0073 Bond Issuance Cost and Fees	1,200	-	-	1,200
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	429	429
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	506,774	-	551,837	1,058,611
0099 Other Intergovernmental Charges	680,000	-	-	680,000
6030 Total Expenditures	38,751,402	7,900,191	6,697,769	53,349,362
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	2,253,862	89,565	(60,710)	2,282,717
OTHER FINANCING SOURCES (USES):				
7949 Other Resources	58,111	-	-	58,111
1200 Net Change in Fund Balances	2,311,973	89,565	(60,710)	2,340,828
0100 Fund Balance - September 1 (Beginning)	8,876,927	919,409	1,229,619	11,025,955
3000 Fund Balance - August 31 (Ending)	\$ 11,188,900	\$ 1,008,974	\$ 1,168,909	\$ 13,366,783

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

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
AUGUST 31,2017

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<b>Net Change in Fund Balances - Governmental Funds (from Exhibit C-3)</b>	\$ 2,340,828
Capital outlays are not reported as expenses in the Statement of Activities (SOA).	426,669
The depreciation of capital assets used in governmental activities is not reported in the funds.	(3,642,969)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	104,864
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	4,575,000
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(62,435)
(Increase) decrease in accrued interest from beginning of period to end of period.	7,862
Repayment of note is an expenditure in the funds but is not an expense in the SOA.	56,928
Bond premiums are reported in the funds but not in the SOA.	64,259
Pension contributions made after the measurement date but in current FY were de-expended and reduced Net Pension.	632,354
Pension expenditures relating to GASB 68 is recorded in the SOA but not in the funds.	<u>(1,401,759)</u>
<b>Change in Net position of Governmental Activities - Statement of Activities (see Exhibit B-1)</b>	<u><u>\$ 3,101,601</u></u>

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

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
AUGUST 31, 2017

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 65,557
Due from Other Funds	1,110
	<hr/>
Total Assets	<u>\$ 66,667</u>
LIABILITIES	
Due to Student Groups	\$ 66,667
	<hr/>
Total Liabilities	<u>\$ 66,667</u>

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

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2017

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Hallsville Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) in the United States of America promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in **GASB Statement No. 76**, and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

**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.

GASB Statement No. 77, Tax Abatement Disclosures, requires state and local governments, for the first time, to disclose information about tax abatement agreements. It requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues. The requirements of this Statement are effective for financial statements for reporting periods beginning after December 15, 2015. The implementation of this statement did not have a significant impact on the District's financial statements.

**A. REPORTING ENTITY**

The Board of Trustees (the "Board") is elected by the public and it has fiscal accountability over all activities related to public elementary and secondary education within the jurisdiction of the District. The trustees as a body corporate have the exclusive power and duty to govern and oversee the management of the public schools of the district. All powers and duties not specifically delegated by statute to the Texas Education Agency (Agency) or to the State Board of Education are reserved for the trustees, and the Agency may not substitute its judgment for the lawful exercise of those powers and duties by the trustees. The District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards, and there are no component units included within the reporting entity. The combined financial statements of the District include all activities for which the Board exercises these governance responsibilities.

**B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Hallsville Independent School District nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support. The District has no business type activities.



HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2017

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

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

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

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

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

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

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

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

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2017

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

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable.

Agency Funds utilize the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities.

**D. FUND ACCOUNTING**

The District reports the following major governmental funds:

1. **The General Fund** – The general fund is the District’s primary operating fund. This fund is established to account for resources financing the fundamental operations of the District, in partnership with the community enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board of Trustees to implement its responsibilities.
2. **Debt Service Funds** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.

Additionally, the District reports the following fund types:

Governmental Funds:

1. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods. The Food Service Fund is the only required budgeted fund. For all other funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.

The District’s Food Service Fund is considered a special revenue fund since it meets the following criteria: (1) User fees are charged to supplement the National School Lunch Program (NSLP), (2) The General Fund subsidizes the Food Service Program for all expenditures required in excess of NSLP and user fees, and (3) The District does not consider the Food Service Program completely self-supporting. Food Service fund balances are used exclusively for child nutrition program purposes.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2017

2. **Capital Projects Funds** – These governmental funds are established to account for proceeds from the sale of bonds and other resources to be used for Board authorized acquisition, construction, or renovation, as well as, furnishing and equipping of major capital facilities. Upon completion of a project, any unused bond proceeds are transferred to the Debt Service Fund and are used to retire related bond principal.
3. **Permanent Funds** – The District accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the District's programs. The District has no Permanent Funds.

Proprietary Funds:

1. **Enterprise Funds** – The District's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund. The District has no enterprise funds.
2. **Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District has no internal service funds.

Fiduciary Funds:

1. **Private Purpose Trust Funds** – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. The District has no Private Purpose Trust Funds.
2. **Pension (and Other Employee Benefit) Trust Funds** – These funds are used to account for local pension and other employee benefit funds that are provided by the District in lieu of or in addition to the Teacher Retirement System of Texas. The District has no Pension Trust Funds.
3. **Investment Trust Fund** - This fund is one in which the District holds assets in trust for other entities participating in an investment program managed by the district. The District has no Investment Trust Funds.
4. **Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Funds are the Student Activity Funds for each campus.

**E. OTHER ACCOUNTING POLICIES**

1. For purposes of the statement of cash flows for proprietary and similar fund-types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.
3. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.
4. In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2017

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.

5. The District does not have a policy to pay any amounts when employees separate from service with the district; therefore, there is no liability for unpaid accumulated sick leave.
6. Capital assets, which include land, buildings, furniture and equipment and infrastructure assets 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 of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	30-50
Building Improvements	10-20
Vehicles	5
Office Equipment	10
Computer Equipment	10

Land and Construction in Progress are not depreciated.

7. Internal Service Funds support the operations of governmental funds and are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the District as a whole. The District has no Internal Service Funds.
8. In the fund financial statements, governmental funds report fund balances in the following classifications:
  - a. *Nonspendable fund balance* – amounts that are not in spendable form, such as fund balances associated with inventories, prepaids, and long-term loans and notes receivable.
  - b. *Restricted fund balance* – amounts that can be spent only for the specific purposes stipulated by their providers, such as grantors, bondholders, and higher levels of government, through constitutional provisions, or enabling legislation.
  - c. *Committed fund balance* – amounts that can only be used for the specific purposes determined by a formal action of the District's Board of Trustees (the District's highest level of decision-making authority). These amounts cannot be used for any other purpose unless the District's Board of Trustees takes the same level of action to remove or change the constraint.
  - d. *Assigned fund balance* – amounts intended to be used by the government for a specific purpose but do not meet the criteria to be classified as restricted or committed. Intent can be expressed by the District's Board of Trustees or by the Superintendent or the Superintendent's designee to whom the Board of Trustees has delegated the authority to assign fund balances.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2017

- e. *Unassigned fund balance* – amounts that are available for any purpose; these amounts are reported only in the General Fund.
- 9. When the District incurs an expense for which it may use assets available in more than one classification, the District uses restricted assets first, followed by committed, assigned and finally unassigned, unless unassigned assets will have to be returned because they were not used.
- 10. Management's use of estimates in the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimations and assumptions that affect the reported amounts of assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.
- 11. 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 deferred outflows of resources, for its proportionate share of TRS's deferred outflow related to pensions as described in Note III G and for deferred charges for bond refunding.
- 12. 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 one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government wide statement of net position. The District has deferred inflows of resources, which arises under the modified accrual basis of accounting, unavailable revenue from property taxes and for its proportionate share of the Teacher Retirement System of Texas' (TRS) deferred inflow related to pensions as described in Note III G. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.
- 13. The Data Control Codes refer to the account code structure prescribed by TEA in the ***Financial Accountability System Resource Guide***. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide database for policy development and funding plans.

## II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports are in Exhibit J-2 and J-3.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.

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2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. The following amendments were significant:
  - Provide for payroll allocations between functions.
  - Provide for the purchase of an additional special needs transportation vehicle.
  - Provide for purchases of additional supplies for curriculum and assessment.
  - Provide for purchases of additional intermediate campus playground equipment.
  - Provide for purchases of additional fees and equipment for extracurricular activities.
  - Provide for purchases of additional licensing for District libraries.
  - Provide for payment of note payment and related donation revenue.
  - Provide for purchases of additional expenditures in food services.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and non-appropriated budget special revenue funds is as follows:

	August 31, 2017
	<u>Fund Balance</u>
Appropriated Budget Funds – Food Service Special Revenue Fund	\$ 517,034
Non-appropriated Budget Funds	<u>651,875</u>
All Special Revenue Funds	<u>\$ 1,168,909</u>

### III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

#### A. **DEPOSITS AND INVESTMENTS**

##### **Deposits**

##### District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the District complies with this law, it has no custodial credit risk for deposits.

Foreign Currency Risk The District does not have any deposits or investments denominated in a foreign currency.

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As of August 31, 2017, the following are the District's cash and cash equivalents with respective maturities and credit rating:

<u>Type of Deposit</u>	<u>Fair Value</u>	<u>Percent</u>	<u>Maturity in Less than 1 year</u>	<u>Maturity in 1-10 Years</u>	<u>Maturity in Over 10 Years</u>	<u>Credit Rating</u>
Cash	\$ 880,523	6.33%	\$ 880,523	-	-	N/A
Money Markets	980	0.01%	980	-	-	N/A
Investment Pools:						
Lone Star	10,996,155	79.09%	10,996,155	-	-	AAA
TexPool	12,257	0.09%	12,257	-	-	AAA
TexSTAR	4,979	0.03%	4,979	-	-	AAA
Certificates of Deposit	2,009,226	14.45%	2,009,226	-	-	AAA
Total Cash, Deposits in Investment Pools, and Money Market Accounts	<u>\$ 13,904,120</u>	<u>100.00%</u>	<u>\$ 13,904,120</u>	<u>-</u>	<u>-</u>	

Total Cash and Cash Equivalents - Primary Government	\$ 13,838,563
Total Cash and Cash Equivalents - Fiduciary Funds	<u>65,557</u>
Total Cash and Cash Equivalents	<u>\$ 13,904,120</u>

**Investments**

**District Policies and Legal and Contractual Provisions Governing Investments**

**Compliance with the Public Funds Investment Act**

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

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) No load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

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Additional policies and contractual provisions governing deposits and investments for Hallsville Independent School District are specified below:

*Credit Risk* To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments to those covered by the Public Funds Investment Act. As of August 31, 2017, the District's investments in investment pools was rated AAA by Standard & Poor's.

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

*Concentration of Credit Risk* To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District requires investments to be made in a manner that ensures the preservation of capital in the overall portfolio, and offsets during the 12-month period any market price losses resulting from interest-rate fluctuations by income received from the balance of the portfolio.

*Interest Rate Risk* To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires any internally created pool fund group of the District to have a maximum dollar weighted maturity of 180 days. The maximum allowable stated maturity of any other individual investment owned by the District may not exceed one year from the time of purchase. All of the District's investments at August 31, 2017 had a maturity of one year or less.

*Foreign Currency Risk for Investments* The District does not have any investments denominated in a foreign currency.

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The District's investments are held in First Public Lone Star Corporate Overnight Plus Fund, TexPool Texas Local Government Investment Pool, TexSTAR, & Certificates of Deposit. First Public Lone Star Corporate Overnight Plus Fund, TexPool Texas Local Government Investment Pool, and TexSTAR which are classified as cash and cash equivalents as they are exempt from Fair Value Measurement under GASB 72 as they qualify as 2a-7 like investment pools.



**HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
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**B. PROPERTY TAXES**

Property taxes are levied on October 1 on the assessed value listed as of the prior January 1 for all real estate and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent and subject to interest if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period, however, amounts collected during the 60-day period after year-end are not considered material to the financial statements and are not reported.

The tax rates assessed for the year ended August 31, 2017, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.04 and \$0.33 per \$100 valuation, respectively, for a total of \$1.370 per \$100 valuation. The assessed value of the property tax roll on July 20, 2016, upon which the levy for the 2016-2017 fiscal year was based, was \$2,438,284,285.

Current tax collections for the year ended August 31, 2017 were 98.25% of the year end adjusted tax levy. Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. As of August 31, 2017, unavailable revenue, net of estimated uncollectible taxes, totaled \$1,221,410 and \$362,473 for the General and Debt Service Funds, respectively.

**C. INTERFUND BALANCES AND TRANSFERS**

**1. Due To and From Other Funds**

Balances due to and due from other funds at August 31, 2016, consisted of the following:

Due to Fund	Due From Fund	Amount
General Fund	Debt Service Fund	\$ 272,332
Special Revenue Funds	Other Special Revenue Funds	116,853
General Fund	Special Revenue Funds	38,832
Special Revenue Funds	General Fund	4,716
Agency Fund	General Fund	1,110
	Total	\$ <u>433,843</u>

All amounts due are scheduled to be repaid within one year.

**2. Transfers To and From Other Funds**

There were no transfers to and from other funds as of August 31, 2017.

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**D. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at August 31, 2017  
were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Due From Other Funds</u>	<u>Other</u>	<u>Total Receivables</u>
<b>Governmental Activities:</b>					
General Fund	\$ 1,258,866	\$ 1,597,967	\$ 311,164	\$ 58,131	\$ 3,226,128
Debt Service Fund	372,986	8,086	-	-	381,072
Nonmajor Governmental Fund	<u>-</u>	<u>276,521</u>	<u>121,569</u>	<u>25,552</u>	<u>423,642</u>
Total – Governmental Activities	<u>\$ 1,631,852</u>	<u>\$ 1,882,574</u>	<u>\$ 432,733</u>	<u>\$ 83,683</u>	<u>\$ 4,030,842</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ 47,969</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,969</u>

Payables at August 31, 2017  
were as follows:

	<u>Accounts</u>	<u>Salaries and Benefits</u>	<u>Due to Other Funds</u>	<u>Due to Other Gov'ts</u>	<u>Other</u>	<u>Total Payments</u>
<b>Governmental Activities:</b>						
General Fund	\$ 255,163	\$1,431,765	\$ 5,826	\$ -	\$ -	\$ 1,692,754
Debt Service Fund	-	-	272,332	-	-	272,332
Nonmajor Governmental Fund	<u>183,967</u>	<u>174,034</u>	<u>155,685</u>	<u>42</u>	<u>-</u>	<u>513,728</u>
Total-Governmental Activities	<u>\$ 439,130</u>	<u>\$1,605,799</u>	<u>\$ 433,843</u>	<u>\$ 42</u>	<u>\$ -</u>	<u>\$ 2,478,814</u>
<b>Fiduciary Funds:</b>						
Agency Funds	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,667</u>	<u>\$ 66,667</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
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**E. CAPITAL ASSET ACTIVITY**

Capital asset activity for the District for the year ended August 31, 2017, was as follows:

	Beginning Balance	Additions	Adjustments & Retirements	Ending Balance
Governmental Activities:				
Assets Not Being Depreciated:				
Land	\$ 4,759,235	\$ -	\$ -	\$ 4,759,235
Assets with Depreciation:				
Buildings and Improvements	140,971,607	86,110	-	141,057,717
Equipment	5,541,377	90,579	-	5,631,956
Vehicles	4,832,421	249,980	-	5,082,401
Totals at Historic Cost	<u>156,104,640</u>	<u>426,669</u>	<u>-</u>	<u>156,531,309</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	(32,321,956)	(3,217,028)	-	(35,538,984)
Equipment	(3,849,904)	(322,841)	-	(4,172,745)
Vehicles	(4,598,580)	(103,100)	-	(4,701,680)
Total Accumulated Depreciation	<u>(40,770,440)</u>	<u>(3,642,969)</u>	<u>-</u>	<u>(44,413,409)</u>
Governmental Activities Capital Assets, Net	\$ <u>115,334,200</u>	\$ <u>(3,216,300)</u>	\$ <u>-</u>	\$ <u>112,117,900</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 2,276,436
Instructional Resources and Media Services	39,287
Curriculum Development and Instructional Staff Development	36
Instructional Leadership	134,066
School Leadership	211,544
Guidance, Counseling and Evaluation Services	175,792
Social Work Services	8,174
Health Services	35,575
Student (Pupil) Transportation	163,127
Food Services	79,394
Cocurricular/Extracurricular Activities	71,987
General Administration	110,909
Plant Maintenance and Operations	237,927
Security and Monitoring Service	46,096
Data Processing Services	48,706
Community Services	3,913
	<u>\$ 3,642,969</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
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**F. LONG-TERM OBLIGATIONS**

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

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2017, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
Unlimited tax & refunding bonds	\$ 77,700,000	\$ -	\$ 4,575,000	\$ 73,125,000	\$ 4,785,000
Notes payable	298,593	-	56,928	241,665	58,241
Unamortized bond premium	296,907	-	64,259	232,648	31,893
Pension Liability	7,222,087	1,085,500	793,541	7,514,046	-
Total governmental activities	\$ <u>85,517,587</u>	\$ <u>1,085,500</u>	\$ <u>5,489,728</u>	\$ <u>81,113,359</u>	\$ <u>4,875,134</u>

Bonds payable currently outstanding are as follows:

	Interest Rates	Maturity Dates	Amount
Series 2010B Unlimited Tax School Building Bonds	4.272-5.966%	2/15/2030	\$ 68,875,000
Series 2014 Unlimited Tax Refunding Bonds	3.00-3.65%	2/15/2025	4,250,000
			\$ <u>73,125,000</u>

Changes in debt-related deferred outflows of resources for the fiscal year ended August 31, 2017 were:

	Balance at August 31, 2016, <u>As Adjusted</u>	Retired/ <u>Refunded</u>	Balance at August 31, 2017
Deferred Loss on Defeasance of Bonds	\$ 249,742	\$ 62,436	\$ 187,306

Notes payable currently outstanding are as follows:

Governmental Capital Corporation: Principal balance of \$241,665, interest rate of 2.45%, maturing 8/1/2021.

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Debt service requirements on long-term debt at August 31, 2017, are as follows:

<u>Year Ending August 31,</u>	<u>Governmental Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2018	\$ 4,843,241	\$ 3,743,663	\$ 8,586,904
2019	4,989,667	3,531,056	8,520,723
2020	5,141,130	3,305,245	8,446,375
2021	5,302,627	3,061,930	8,364,557
2022	5,410,000	2,803,737	8,213,737
2023-2027	28,825,000	9,603,284	38,428,284
2028-2030	18,855,000	1,711,735	20,566,735
Totals	\$ <u>73,366,665</u>	\$ <u>27,760,650</u>	\$ <u>101,127,315</u>

**G. DEFINED BENEFIT PENSION PLAN**

**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.

**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 [https://www.trs.texas.gov/TRS%20Documents/cafr\\_2016.pdf](https://www.trs.texas.gov/TRS%20Documents/cafr_2016.pdf); by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

**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 post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description above.

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**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.

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. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

	Contribution Rates	
	2016	2017
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
District's FY 2017 Employer Contributions		\$ 632,354
District's FY 2017 Member Contributions		\$ 2,149,106
District's 2017 NECE On-behalf Contributions		\$ 1,672,457

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education, 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 including public 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 or from a privately sponsored source.

In addition to the employer contributions listed above, there are two additional surcharges an employer is subject to.

- 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.
- When a school district does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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**Actuarial Assumptions** – The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases Including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.50%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

The actuarial methods and assumptions are based primarily on a study of actual experience for the four year period ending August 31, 2014 and adopted on September 24, 2015.

**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, 2016 are summarized below:

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Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
<b>Global Equity</b>			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
<b>Stable Value</b>			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
<b>Real Return</b>			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	6.7%	0.3%
Inflation Expectations			2.2%
Alpha			1.0%
<b>Total</b>	<b>100%</b>		<b>8.7%</b>

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

**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 2016 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$ 11,629,212	\$ 7,514,046	\$ 4,023,553



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**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions** – At August 31, 2017, the Hallsville Independent School District reported a liability of \$8,290,727 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 collective net pension liability	\$ 7,514,046
State's proportionate share that is associated with District	<u>19,851,808</u>
Total	<u>\$ 27,365,854</u>

The net pension liability was measured as of August 31, 2016 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, 2015 thru August 31, 2016.

At August 31, 2016 the employer's proportion of the collective net pension liability was .019884471% which was an decrease of (.000546529)% from its proportion measured as of August 31, 2015.

**Changes Since the Prior Actuarial Valuation** The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

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

For the year ended August 31, 2017, the District recognized pension expense of \$2,060,144 and revenue of \$2,060,144 for support provided by the State.

At August 31, 2017, 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 economic experience	\$ 117,819	\$ 224,365
Changes in actuarial assumptions	229,015	208,279
Difference between projected and actual investment earnings	636,274	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	2,454,689	415
Contributions paid to TRS subsequent to the measurement date	632,354	-
Total	\$ 4,070,151	\$ 433,059

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2017

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:

	Pension Expense
Year ended August 31:	Amount
2018	\$ 551,186
2019	551,186
2020	957,033
2021	519,999
2022	380,366
Thereafter	44,966

#### H. HEALTH CARE COVERAGE - RETIREES AND ACTIVE EMPLOYEES

##### **Retiree Health Care Coverage**

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

**Funding Policy.** Contribution requirements are not actuarially determined but are 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 Contribution Rate for the State was 1.00% for 2015, 2016 and 2017. The contribution rate for the district was 0.55% for each of these three years. The contribution rate for active employees was 0.65% of the district payroll for each of the three years. 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 1.0%.

**Contributions.** Contributions made by the State on behalf of the District are recorded in the governmental funds financial statements as both revenue and expenditures. State contributions to TRS made on behalf of the District's employees as well as the District's required contributions and federal grant program contributions for the years ended August 31, 2017, 2016 and 2015 are as follows:

	2017	2016	2015
District Contributions	\$ 153,093	\$ 153,157	\$ 148,812
Federal Contributions	\$ 15,494	14,004	12,332
State Contributions	\$ 262,519	\$ 279,328	\$ 270,573
Employee Contributions	\$ 180,925	\$ 181,567	\$ 175,876

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2017

**Medicare Part D.** The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal year ended August 31, 2017, 2016, and 2015 the subsidy payments received by TRS-Care on-behalf of the District were \$83,201, \$109,068 and \$81,175 respectively. The information for the year ended August 31, 2017 is an estimate provided by the Teacher Retirement System. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

**Active Employee Health Care Coverage**

**Plan Description.** The District participates in TRS Active Care sponsored by the Teacher Retirement System of Texas and administered through Aetna and Caremark (pharmacy). TRS-Active Care provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance are also provided to active members and retirees. Authority for the plan can be found in the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and in the Texas Administrative Code, Title 34, Part 3, Chapter 41. The plan began operations on September 1, 2002. This is a premium-based plan. Payments are made on a monthly basis for all covered employees.

**I. WORKERS' COMPENSATION**

The District joined together with other districts in the East Texas area to form the East Texas Education Insurance Association, a public entity risk pool currently operating a workers' compensation risk management and insurance program for various member school districts. During the 2016-17 school year, the District paid a fixed cost in the amount of \$67,892 for administration of claims, loss control, recordkeeping, and the cost of stop-loss insurance.

Total workers' compensation claims and loss funding sharing payments were \$115,550 for the year. The District may be required to pay and retains the risk of loss for workers' compensation claims up to its loss fund maximum. When and if schools in the Association exceed their loss fund maximum, the District will be required to pay a percentage share of the excess. A reconciliation of claims activity for the past two fiscal years is provided below:

		Beginning Balance		Claims Incurred		Claims Paid		Ending Balance
Year ended August 31, 2017	\$	272,219	\$	75,941	\$	(111,550)	\$	236,610
Year ended August 31, 2016		251,174		80,438		(59,393)		272,219

**J. OPERATING LEASES**

The term of the lease for copiers was for 21 months beginning October 2015 and ending July 2017 for \$6,798 per month. Another copier for 11 months beginning August 2016 and ending July 2017 for \$200 a month. A new contract for the copiers started September 2017 and ends September 2022 for \$12,375 per month. This is a result from combining all copiers and printers not under leases before. The district also leases a postage meter for five years beginning November 2012 and ending 2017 for \$2,951 per month. It was renewed for November 2017 to 2022.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2017

The future lease payments at August 2017 are as follows:

	Postage Meter	Copiers	Total
2018	\$ 35,412	\$ 148,500	\$ 183,912
2019	35,412	148,500	183,912
2020	35,412	148,500	183,912
2021	35,412	148,500	183,912
2022	35,412	148,500	183,912
	<u>\$ 177,060</u>	<u>\$ 742,500</u>	<u>\$ 919,560</u>

Total lease expense (including operating leases noted above) amounted to \$128,528 and \$121,237 in 2017 and 2016, and respectively.

**K. UNEARNED REVENUE**

Unearned revenue at year end consisted of the following:

	General Fund	Special Revenue Fund	Total
Tuition from Transfer Students	\$ 210,467	\$ -	\$ 210,467
Tickets for Athletic Activity	30,109	-	30,109
Unearned School Nutrition	-	49,537	49,537
Texas Education Agency	-	12,667	12,667
Other	3,250	-	3,250
Total Deferred Revenue	<u>\$ 243,826</u>	<u>\$ 62,204</u>	<u>\$ 306,030</u>

**L. DUE FROM OTHER GOVERNMENTS**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2017, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

<u>Fund</u>	<u>Other</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Total</u>
General Fund	\$ 25,556	\$ 1,356,202	\$ 216,209	\$ 1,597,967
Debt Service Fund	8,086	-	-	8,086
Special Revenue Funds	-	276,521	-	276,521
Total	<u>\$ 33,642</u>	<u>\$ 1,632,723</u>	<u>\$ 216,209</u>	<u>\$ 1,882,574</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2017

**M. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES**

During the current year, revenues from local and intermediate sources as shown on the governmental activities financials consisted of the following:

	General Fund	Debt Service Fund	Special Revenue Funds	Capital Projects Fund	Total
Property Taxes	\$24,701,271	\$7,838,186	\$ -	\$ -	\$32,539,457
Food Sales	-	-	638,449	-	638,449
Investment Income	141,078	23,855	1,553	1	166,487
Penalties, Interest and Other Tax Related Income	330,719	-	-	-	330,719
Campus Activity	-	-	265,439	-	265,439
Athletics	125,136	-	-	-	125,136
Shared Service	89,450	-	851,318	-	940,768
Other	429,559	-	523,347	-	952,906
	<u>\$25,817,213</u>	<u>\$7,862,041</u>	<u>\$2,280,106</u>	<u>\$ 1</u>	<u>\$35,959,361</u>

**N. SHARED SERVICES ARRANGEMENTS**

**Shared Services Arrangement - Fiscal Agent**

The District is the fiscal agent for a Shared Services Arrangement ("SSA") which provides special education services to the member districts listed below. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in Special Revenue Fund 313, SSA-IDEA-8 Formula; Special Revenue Fund 314, SSA-IDEA-8 Preschool; Special Revenue Fund 434, SSA State Supplemental Visually Impaired; and Special Revenue Fund 437, SSA Special Education and will be accounted for using Model 3 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

<u>Member Districts</u>	<u>Expenditures</u>
Elysian Fields ISD	\$ 283,947
Harleton ISD	221,565
Karnack ISD	73,138
Waskom ISD	279,645
Hallsville ISD	1,292,819
Total	<u>\$ 2,151,114</u>

**O. LITIGATION AND CONTINGENCIES**

The District is not a party to any legal action and is not aware of any potential litigations. Accordingly, no provision for losses has been recorded in the accompanying combined financial statements for such contingency.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED AUGUST 31, 2017

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2017 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

**P. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2017, the district purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

**Q. RECENT ACCOUNTING PRONOUNCEMENTS**

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. Among other things, Statement 75 requires governments to report a liability on the face of the financial statements for the OPEB that they provide and requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information about their OPEB liabilities. The requirements of this Statement are effective for financial statements for fiscal years beginning after June 15, 2017. The District is currently evaluating the effect of this statement on their financial statements.

## REQUIRED SUPPLEMENTARY INFORMATION

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
	REVENUES:				
5700	Total Local and Intermediate Sources	\$ 25,662,981	\$ 25,816,593	\$ 25,817,213	\$ 620
5800	State Program Revenues	12,325,195	12,325,195	13,286,967	961,772
5900	Federal Program Revenues	1,579,897	1,579,897	1,901,084	321,187
5020	Total Revenues	39,568,073	39,721,685	41,005,264	1,283,579
	EXPENDITURES:				
	Current:				
0011	Instruction	21,618,341	21,407,259	21,337,185	70,074
0012	Instructional Resources and Media Services	523,068	524,768	488,794	35,974
0013	Curriculum and Instructional Staff Development	205,641	162,932	70,215	92,717
0021	Instructional Leadership	1,076,950	1,100,628	1,046,408	54,220
0023	School Leadership	2,038,024	2,125,524	2,015,265	110,259
0031	Guidance, Counseling and Evaluation Services	693,911	829,564	795,917	33,647
0032	Social Work Services	78,648	78,648	78,001	647
0033	Health Services	349,628	364,628	351,462	13,166
0034	Student (Pupil) Transportation	2,211,183	2,085,083	2,013,172	71,911
0035	Food Services	-	5,809	4,716	1,093
0036	Extracurricular Activities	792,886	1,434,892	1,358,858	76,034
0041	General Administration	1,505,591	1,418,319	1,359,972	58,347
0051	Facilities Maintenance and Operations	5,208,764	4,829,031	4,757,776	71,255
0052	Security and Monitoring Services	439,035	464,035	461,746	2,289
0053	Data Processing Services	755,776	755,776	715,773	40,003
0061	Community Services	69,998	69,998	42,329	27,669
	Debt Service:				
0071	Principal on Long Term Debt	460,000	516,928	516,927	1
0072	Interest on Long Term Debt	151,678	158,912	148,912	10,000
0073	Bond Issuance Cost and Fees	5,000	5,000	1,200	3,800
	Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of SSA	550,000	550,000	506,774	43,226
0099	Other Intergovernmental Charges	680,000	680,000	680,000	-
6030	Total Expenditures	39,414,122	39,567,734	38,751,402	816,332
1100	Excess of Revenues Over Expenditures	153,951	153,951	2,253,862	2,099,911
	OTHER FINANCING SOURCES (USES):				
7949	Other Resources	-	-	58,111	58,111
1200	Net Change in Fund Balances	153,951	153,951	2,311,973	2,158,022
0100	Fund Balance - September 1 (Beginning)	8,876,927	8,876,927	8,876,927	-
3000	Fund Balance - August 31 (Ending)	\$ 9,030,878	\$ 9,030,878	\$ 11,188,900	\$ 2,158,022



HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR THE YEAR ENDED AUGUST 31, 2017

	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
District's Proportion of the Net Pension Liability (Asset)	0.0198844%	0.020431%	0.0089279%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 7,514,046	\$ 7,222,087	\$ 2,384,766
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	19,851,808	19,225,141	15,748,323
Total	<u>\$ 27,365,854</u>	<u>\$ 26,447,228</u>	<u>\$ 18,133,089</u>
District's Covered-Employee Payroll	\$ 27,932,831	\$ 27,057,260	\$ 24,972,750
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	26.90%	26.69%	9.55%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.00%	78.43%	83.25%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2016 for Year 2017, August 31, 2015 for Year 2016 and August 31, 2014 for 2015.

Note: In accordance with GASB 68, Paragraph 138, only three years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DISTRICT'S CONTRIBUTIONS  
TEACHER RETIREMENT SYSTEM OF TEXAS  
FOR FISCAL YEAR 2017

	2017	2016	2015
Contractually Required Contribution	\$ 632,354	\$ 631,695	\$ 597,887
Contribution in Relation to the Contractually Required Contribution	(632,354)	(631,695)	(597,887)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-
District's Covered-Employee Payroll	\$ 27,834,688	\$ 27,932,831	\$ 27,057,260
Contributions as a Percentage of Covered-Employee Payroll	2.27%	2.26%	2.21%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 for the respective fiscal years.

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED AUGUST 31, 2017

*Changes of Benefit Terms*

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

*Changes of Assumptions*

There were no changes in the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

COMBINING STATEMENTS  
AS SUPPLEMENTARY INFORMATION

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
AUGUST 31, 2017

Data Control Codes		211 ESEA I, A Improving Basic Program	215 ESEA I, D Subpart 2 Delinquent Pr	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ 546,145	\$ -
1240	Receivables from Other Governments	84,400	-	23,988	-
1260	Due from Other Funds	-	2	4,716	-
1290	Other Receivables	-	-	17,452	-
1300	Inventories	-	-	49,252	-
1000	Total Assets	<u>\$ 84,400</u>	<u>\$ 2</u>	<u>\$ 641,553</u>	<u>\$ -</u>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ 479	\$ 2	\$ 66,525	\$ -
2160	Accrued Wages Payable	34,966	-	8,457	-
2170	Due to Other Funds	48,955	-	-	-
2180	Due to Other Governments	-	-	-	-
2300	Unearned Revenues	-	-	49,537	-
2000	Total Liabilities	<u>84,400</u>	<u>2</u>	<u>124,519</u>	<u>-</u>
<b>FUND BALANCES</b>					
Nonspendable Fund Balance:					
3410	Inventories	-	-	31,517	-
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	485,517	-
3490	Other Restricted Fund Balance	-	-	-	-
Committed Fund Balance:					
3545	Other Committed Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>517,034</u>	<u>-</u>
4000	Total Liabilities and Fund Balances	<u>\$ 84,400</u>	<u>\$ 2</u>	<u>\$ 641,553</u>	<u>\$ -</u>

255 ESEA II,A Training and Recruiting	289 Other Federal Special Revenue Funds	313 SSA IDEA, Part B Formula	314 SSA IDEA, Part B Preschool	381 Adult Basic Education State	410 State Textbook Fund	434 SSA - SSVI Visually Impaired	437 SSA Special Education
\$ -	\$ -	\$ -	\$ -	\$ 42	\$ -	\$ 2	\$ 256,058
7,083	-	158,624	2,426	-	-	-	-
-	-	-	-	-	116,851	-	-
-	-	-	-	-	-	8,100	-
-	-	-	-	-	-	-	-
<u>\$ 7,083</u>	<u>\$ -</u>	<u>\$ 158,624</u>	<u>\$ 2,426</u>	<u>\$ 42</u>	<u>\$ 116,851</u>	<u>\$ 8,102</u>	<u>\$ 256,058</u>
\$ 2,100	\$ -	\$ 9,991	\$ -	\$ -	\$ 104,184	\$ -	\$ 686
-	-	54,988	2,426	-	-	-	73,197
4,983	-	93,645	-	-	-	8,102	-
-	-	-	-	42	-	-	-
-	-	-	-	-	12,667	-	-
<u>7,083</u>	<u>-</u>	<u>158,624</u>	<u>2,426</u>	<u>42</u>	<u>116,851</u>	<u>8,102</u>	<u>73,883</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	182,175
-	-	-	-	-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>182,175</u>
<u>\$ 7,083</u>	<u>\$ -</u>	<u>\$ 158,624</u>	<u>\$ 2,426</u>	<u>\$ 42</u>	<u>\$ 116,851</u>	<u>\$ 8,102</u>	<u>\$ 256,058</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2017

Data Control Codes		461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	610 2010 Bond Fund	Total Nonmajor Governmental Funds
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ 469,700	\$ 1,271,947	\$ -	\$ 1,271,947
1240	Receivables from Other Governments	-	276,521	-	276,521
1260	Due from Other Funds	-	121,569	-	121,569
1290	Other Receivables	-	25,552	-	25,552
1300	Inventories	-	49,252	-	49,252
1000	Total Assets	<u>\$ 469,700</u>	<u>\$ 1,744,841</u>	<u>\$ -</u>	<u>\$ 1,744,841</u>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ -	\$ 183,967	\$ -	\$ 183,967
2160	Accrued Wages Payable	-	174,034	-	174,034
2170	Due to Other Funds	-	155,685	-	155,685
2180	Due to Other Governments	-	42	-	42
2300	Unearned Revenues	-	62,204	-	62,204
2000	Total Liabilities	<u>-</u>	<u>575,932</u>	<u>-</u>	<u>575,932</u>
<b>FUND BALANCES</b>					
Nonspendable Fund Balance:					
3410	Inventories	-	31,517	-	31,517
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	485,517	-	485,517
3490	Other Restricted Fund Balance	-	182,175	-	182,175
Committed Fund Balance:					
3545	Other Committed Fund Balance	<u>469,700</u>	<u>469,700</u>	<u>-</u>	<u>469,700</u>
3000	Total Fund Balances	<u>469,700</u>	<u>1,168,909</u>	<u>-</u>	<u>1,168,909</u>
4000	Total Liabilities and Fund Balances	<u>\$ 469,700</u>	<u>\$ 1,744,841</u>	<u>\$ -</u>	<u>\$ 1,744,841</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	211 ESEA I, A Improving Basic Program	215 ESEA I, D Subpart 2 Delinquent Pr	240 National Breakfast and Lunch Program	244 Career and Technical - Basic Grant
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ 638,449	\$ -
5800 State Program Revenues	-	-	11,880	-
5900 Federal Program Revenues	626,275	71,116	1,268,243	39,036
5020 Total Revenues	626,275	71,116	1,918,572	39,036
EXPENDITURES:				
Current:				
0011 Instruction	608,129	71,116	-	36,471
0012 Instructional Resources and Media Services	-	-	-	-
0013 Curriculum and Instructional Staff Development	-	-	-	2,427
0021 Instructional Leadership	11,748	-	-	138
0031 Guidance, Counseling and Evaluation Services	-	-	-	-
0035 Food Services	-	-	1,765,271	-
0036 Extracurricular Activities	-	-	-	-
0041 General Administration	-	-	-	-
0051 Facilities Maintenance and Operations	-	-	-	-
0061 Community Services	6,398	-	-	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	-	-
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	-	-	-	-
6030 Total Expenditures	626,275	71,116	1,765,271	39,036
1200 Net Change in Fund Balance	-	-	153,301	-
0100 Fund Balance - September 1 (Beginning)	-	-	363,733	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ 517,034	\$ -



255 ESEA II,A Training and Recruiting	289 Other Federal Special Revenue Funds	313 SSA IDEA, Part B Formula	314 SSA IDEA, Part B Preschool	381 Adult Basic Education State	410 State Textbook Fund	434 SSA - SSVI Visually Impaired	437 SSA Special Education
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,100	\$ 843,218
-	-	-	-	3,525	506,972	-	52,117
84,729	1,165	1,667,416	24,478	-	-	-	-
84,729	1,165	1,667,416	24,478	3,525	506,972	8,100	895,335
-	1,165	587,781	24,478	3,525	506,972	8,100	254,396
-	-	-	-	-	-	-	-
84,729	-	13,346	-	-	-	-	-
-	-	111,541	-	-	-	-	182,247
-	-	491,361	-	-	-	-	476,565
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	1,000	-	-	-	-	-
-	-	-	-	-	-	-	297
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	462,387	-	-	-	-	89,450
84,729	1,165	1,667,416	24,478	3,525	506,972	8,100	1,002,955
-	-	-	-	-	-	-	(107,620)
-	-	-	-	-	-	-	289,795
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 182,175

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	610 2010 Bond Fund	Total Nonmajor Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 790,339	\$ 2,280,106	\$ 1	\$ 2,280,107
5800 State Program Revenues	-	574,494	-	574,494
5900 Federal Program Revenues	-	3,782,458	-	3,782,458
5020 Total Revenues	790,339	6,637,058	1	6,637,059
EXPENDITURES:				
Current:				
0011 Instruction	217,038	2,319,171	-	2,319,171
0012 Instructional Resources and Media Services	22,461	22,461	-	22,461
0013 Curriculum and Instructional Staff Development	-	100,502	-	100,502
0021 Instructional Leadership	21,463	327,137	-	327,137
0031 Guidance, Counseling and Evaluation Services	-	967,926	-	967,926
0035 Food Services	-	1,765,271	-	1,765,271
0036 Extracurricular Activities	635,600	635,600	-	635,600
0041 General Administration	-	1,000	-	1,000
0051 Facilities Maintenance and Operations	-	297	-	297
0061 Community Services	(260)	6,138	-	6,138
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	429	429
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	-	551,837	-	551,837
6030 Total Expenditures	896,302	6,697,340	429	6,697,769
1200 Net Change in Fund Balance	(105,963)	(60,282)	(428)	(60,710)
0100 Fund Balance - September 1 (Beginning)	575,663	1,229,191	428	1,229,619
3000 Fund Balance - August 31 (Ending)	\$ 469,700	\$ 1,168,909	\$ -	\$ 1,168,909

## T.E.A. REQUIRED SCHEDULES

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED AUGUST 31, 2017

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2008 and prior years	Various	Various	\$ Various
2009	1.040000	0.280000	2,779,886,230
2010	1.040000	0.313000	2,563,762,443
2011	1.040000	0.313000	2,094,590,522
2012	1.040000	0.383000	2,170,797,892
2013	1.040000	0.350000	2,260,174,748
2014	1.040000	0.353000	2,276,705,675
2015	1.040000	0.343000	2,386,180,356
2016	1.040000	0.330000	2,415,217,007
2017 (School year under audit)	1.040000	0.330000	2,414,245,444
1000 TOTALS			

(10) Beginning Balance 9/1/2016	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2017
\$ 223,761	\$ -	\$ 8,563	\$ 1,197	\$ (20,245)	\$ 193,756
51,151	-	2,468	664	(3,148)	44,871
63,198	-	3,607	1,086	(2,588)	55,917
75,152	-	4,950	1,490	(2,394)	66,318
118,848	-	8,607	3,170	(2,865)	104,206
126,048	-	13,594	4,575	(1,769)	106,110
153,837	-	26,121	8,866	(1,855)	116,995
232,520	-	62,686	20,674	9,355	158,515
459,913	-	196,025	62,200	10,634	212,322
-	33,075,163	24,351,669	7,726,972	(423,680)	572,842
<u>\$ 1,504,428</u>	<u>\$ 33,075,163</u>	<u>\$ 24,678,290</u>	<u>\$ 7,830,894</u>	<u>\$ (438,555)</u>	<u>\$ 1,631,852</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 810,652	\$ 810,652	\$ 638,449	\$ (172,203)
5800	State Program Revenues	10,234	10,234	11,880	1,646
5900	Federal Program Revenues	1,267,849	1,267,849	1,268,243	394
5020	Total Revenues	2,088,735	2,088,735	1,918,572	(170,163)
EXPENDITURES:					
0035	Food Services	2,070,036	2,070,036	1,765,271	304,765
6030	Total Expenditures	2,070,036	2,070,036	1,765,271	304,765
1200	Net Change in Fund Balances	18,699	18,699	153,301	134,602
0100	Fund Balance - September 1 (Beginning)	363,733	363,733	363,733	-
3000	Fund Balance - August 31 (Ending)	\$ 382,432	\$ 382,432	\$ 517,034	\$ 134,602

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - DEBT SERVICE FUND  
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 8,124,686	\$ 8,124,686	\$ 7,862,041	\$ (262,645)
5800	State Program Revenues	-	-	127,715	127,715
5020	Total Revenues	8,124,686	8,124,686	7,989,756	(134,930)
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	4,115,000	4,115,000	4,114,999	1
0072	Interest on Long Term Debt	3,785,192	3,785,192	3,785,192	-
6030	Total Expenditures	7,900,192	7,900,192	7,900,191	1
1200	Net Change in Fund Balances	224,494	224,494	89,565	(134,929)
0100	Fund Balance - September 1 (Beginning)	919,409	919,409	919,409	-
3000	Fund Balance - August 31 (Ending)	\$ 1,143,903	\$ 1,143,903	\$ 1,008,974	\$ (134,929)

## FEDERAL AWARDS SECTION





**SQUYRES, JOHNSON, SQUYRES**

*Certified Public Accountants*

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

Board of Trustees  
Hallsville Independent School District  
PO Box 810  
Hallsville, Texas 75650

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hallsville Independent School District as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 19, 2018.

**Internal Control Over Financial Reporting**

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

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

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

**Compliance and Other Matters**

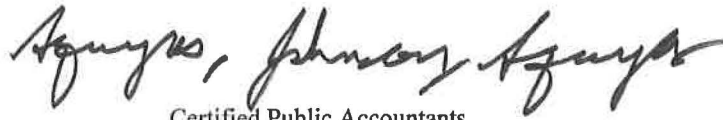
As part of obtaining reasonable assurance about whether the Hallsville Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying findings and questioned costs that we consider to be other matters. The other matters are described as Finding 2017-001 and 2017-002 in the accompanying schedule of findings and questioned costs.

### **Hallsville Independent School District's Response to Findings**

The District's response to the findings identified in our audit is described in the accompanying 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**

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



Certified Public Accountants

Tyler, Texas  
January 19, 2018



**SQUYRES, JOHNSON, SQUYRES**

*Certified Public Accountants*

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON  
INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Trustees  
Hallsville Independent School District  
PO Box 810  
Hallsville, Texas 75650

**Report on Compliance for Each Major Program**

We have audited Hallsville Independent School District's (District) compliance with the types of compliance requirements described in the *OMB 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, 2017. 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Hallsville Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 Hallsville Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

***Opinion on Each Major Federal Program***

In our opinion, Hallsville Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2017.

**Report on Internal Control Over Compliance**

Management of Hallsville Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for

each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, 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.

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

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

  
Certified Public Accountants

Tyler, Texas  
January 19, 2018

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2017

**Section I—Summary of Auditor's Results**

Financial Statements

Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes      X   none reported

Federal Awards

Noncompliance material to financial statements noted? \_\_\_\_\_ yes      X   no

Internal control over major federal programs:

- Material weakness(es) identified? \_\_\_\_\_ yes      X   no
- Significant deficiency(ies) identified? \_\_\_\_\_ yes      X   none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a) ? \_\_\_\_\_ yes      X   no

Identification of major federal programs:

CFDA Number(s)

10.553

10.555

84.027

84.173

Name of Federal Program or Cluster

Child Nutrition Cluster:

School Breakfast Program

National School Lunch Program

Special Education Cluster:

SSA IDEA – B Formula

SSA IDEA – B Preschool

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? \_\_\_\_\_ yes      X   no

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED AUGUST 31, 2017

**Section II—Financial Statement Findings**

**Finding 2017-001**

Criteria:

GASB No. 39, para. 5, requires government entities to include financial data from component units if the financial statements would otherwise be misleading. PTA's, Booster Clubs, etc. would be considered component units "because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government." The component unit's financial data is necessary to evaluate if they are material or not.

Condition:

The District does not have a policy to obtain financial information for component units such as PTA's, Booster Clubs, Foundations for HISD, and other organizations that donate money to the district or its constituents.

Cause:

The District did not obtain financial statements from component units.

Effect:

Potential material understatement of assets and revenue.

Recommendation:

SJS recommends the board to set up a policy to obtain financial statements from the component units.

**Finding 2017-002**

Criteria:

Investment policies must be reviewed every fiscal year.

Condition:

The District did not review their investment policy in FY 2017.

Cause:

The former CFO was out for surgery on the day that the board meeting had been scheduled to review the investment policy. Therefore, the agenda was tabled, but never took place.

Effect:

The investment policy could go on without properly taking into account new factors that could affect the investments.

Recommendation:

SJS recommends the District maintain a schedule for when the investment policy is reviewed to ensure it is reviewed annually.

**Section III—Federal Award Findings and Questioned Costs**

None



HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED AUGUST 31, 2017

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Finding 2016-001: <u>Condition</u></p> <p>The District did not have a systematic and routine year-end closing process to ensure that all material financial statement account balances are accurate and that all significant accounts are reconciled as necessary.</p>	<p>The condition has not reoccurred. Management now has a routine year-end closing process.</p>	
<p>Finding 2016-003: <u>Condition</u></p> <p>The District failed to competitively bid the purchase of a scoreboard costing a total of \$294,180, and did not, therefore, comply with the state laws governing purchases of \$50,000 or more.</p>	<p>The condition has not recurred. Management reviewed requirements with staff, so they would be better informed of state governing laws.</p>	
<p>Finding 2016-004: <u>Condition</u></p> <p>Budget for six functions were over expended.</p>	<p>The condition did not reoccur. Budgets were properly amended.</p>	
<u>Prior year Federal Award Findings</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Finding 2016-002: <u>Condition</u></p> <p>During the fiscal year ended August 31, 2016, the District purchased items of equipment costing \$61,010 for child nutrition activities. The District did not obtain approval from TDA prior to making the purchases.</p>	<p>The condition has not recurred. Management reviewed requirements with staff, so they would be more informed of program requirements.</p>	

**Administrative Offices**

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**HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED AUGUST 31, 2017**

This corrective action plan is the responsibility of the District's Chief Financial Officer, Mary Brown.

**2017-001: Finding – The District does not have a policy to obtain financial information for component units such as PTA's, Booster Clubs, Foundations for HISD, and other organizations that donate money to the district or its constituents.**

Responsible Department: Finance

Corrective Action: The District is in the process of forming a policy to obtain quarterly financial statements from component units, and the policy will be written and presented to the Board for consideration within 90 days.

**2017-002: Finding – The District did not review their investment policy in FY 2017.**

Responsible Departments: Finance

Corrective Action: The District has reviewed their investment policy at the October 2017 board meeting subsequent to the FY 2017 year end.



HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED AUGUST 31, 2017

Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
<b>CHILD NUTRITION CLUSTER:</b>				
<u>U. S. Department of Agriculture</u>				
Passed Through State Department of Education:				
240 School Breakfast Program	10.553	00536	\$ -	\$ 260,817
240 National School Lunch Program	10.555	00536	-	871,159
240 National School Lunch Program (Non-cash)	10.555	00536	-	136,266
Total CFDA Number 10.555			-	1,007,425
Total Passed Through State Department of Education			-	1,268,243
Total U. S. Department of Agriculture			-	1,268,243
Total Child Nutrition Cluster			-	1,268,243
<b>SPECIAL EDUCATION (IDEA) CLUSTER:</b>				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
313 SSA IDEA-B Formula	84.027	176600011029046600	462,387	1,542,191
313 SSA IDEA-B Formula	84.027	186600011029046600	-	125,225
Total CFDA Number 84.027			462,387	1,667,416
314 SSA IDEA-B Preschool	84.173	176610011029046610	-	22,052
314 SSA IDEA-B Preschool	84.173	186610011029046610	-	2,426
Total CFDA Number 84.173			-	24,478
Total Passed Through State Department of Education			462,387	1,691,895
Total U. S. Department of Education			462,387	1,691,895
Total Special Education (IDEA) Cluster			462,387	1,691,895
<b>OTHER PROGRAMS:</b>				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
211 ESEA Title I Part A - Improving Basic Programs	84.010a	16610101102904	-	14,370
211 ESEA Title I Part A - Improving Basic Programs	84.010a	17610101102904	-	611,904
Total CFDA Number 84.010a			-	626,275
244 Career and Technical - Basic Grant	84.048	17420006102904	-	39,036
Total CFDA Number 84.048			-	39,036
215 ESEA Title I Part D, Subpart 2 - Delinquent Programs	84.216a	17610103102904	-	71,116
Total CFDA Number 84.216a			-	71,116
255 ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367a	17694501102904	-	84,729
Total CFDA Number 84.367a			-	84,729
289 Summer School LEP	84.369a	69551602	-	1,165
Total CFDA Number 84.369a			-	1,165
Total Passed Through State Department of Education			-	822,321
Total U. S. Department of Education			-	822,321
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 462,387	\$ 3,782,458

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

HALLSVILLE INDEPENDENT SCHOOL DISTRICT  
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS  
YEAR ENDED AUGUST 31, 2017

1. For all Federal programs, the District uses the fund types specified in Texas Education Agency's ***Financial Accountability System Resource Guide***. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types and Expendable Trust Funds are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in the General Fund or a Special Revenue Fund which are Governmental Fund types.

With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used for the Governmental Fund types. 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 fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned.

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with the requirements of Title 2 U.S. *Code of Federal Regulation*, (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.
4. Federal revenues in the accompanying financial statements include federal source revenues which are not considered federal assistance for purposes of the Schedule of Expenditures of Federal Awards. A reconciliation follows:

Total Federal Expenditures, Exhibit K-1	\$ 3,782,458
Other Federal Revenues:	
Build America Bonds – Interest Subsidy	1,298,813
School Health and Related Services (SHARS)	602,271
Total Federal Revenues, Exhibit C-2	<u>\$ 5,683,542</u>

5. Nonmonetary assistance is reported in the schedule at fair market value of commodities received and disbursed. At August 31, 2017, the District had food commodities totaling \$17,734 in inventory.