

**HALLSVILLE
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2016

Introductory Section

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Hallsville Independent School District
Annual Financial Report
For The Year Ended August 31, 2016

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Hallsville Independent School District
Annual Financial Report
For The Year Ended August 31, 2016

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CERTIFICATE OF BOARD

Hallsville Independent School District
Name of School District

Harrison
County

102-904
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) _____approved _____disapproved for the year ended August 31, 2016, at a meeting of the board of trustees of such school district on the ____ day of _____, _____.

Signatures on file with Texas Education Agency.

Signature of Board Secretary

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)

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Financial Section

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KAREN A. JACKS & ASSOCIATES, P.C.

Certified Public Accountants

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Independent Auditors' Report

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

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 the Hallsville Independent School District ("the District") as of and for the year ended August 31, 2016, 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.

Auditors' 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 of 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hallsville Independent School District as of August 31, 2016, 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.

Emphasis of Matter

Change in Accounting Principle

As described in Note A to the financial statements, in 2016, Hallsville Independent School District adopted new accounting guidance as follows:

Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*.
Governmental Accounting Standards Board Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets that are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*.
Governmental Accounting Standards Board Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*.
Governmental Accounting Standards Board Statement No. 77, *Tax Abatement Disclosures*.

Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions identified as Required Supplementary Information in the table of contents 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 Hallsville Independent School District's basic financial statements. The introductory section and combining nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts 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 Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, Subpart F -- Audit Requirements (Uniform Guidance) and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards 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 combining

nonmajor fund financial statements and other supplementary information and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 19, 2017 on our consideration of Hallsville Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hallsville Independent School District's internal control over financial reporting and compliance.

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, P.C.

Longview, Texas
January 19, 2017

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

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, 2016. Please read it in conjunction with the independent auditors' report on page 9, and the District's Basic Financial Statements, which begin on page 18.

FINANCIAL HIGHLIGHTS

- i The District's net position increased by \$792,741 as a result of this year's operations.
- i During the year, the District's property tax revenues for governmental programs represented 59% of all revenue.
- i Total cost of all of the District's programs increased by \$4 million over last year.
- i The General Fund ended the year with a fund balance of approximately \$8.9 million, \$362,774 less than the beginning fund balance of \$9.2 million.
- i The resources available for appropriation were \$245,256 less than budgeted for the General Fund.
- i The expenditures were \$143,998 less than budgeted for the General Fund.
- i The District settled an outstanding claim for refund on previously collected property taxes. The settlement resulted in special item revenue in the amount of \$222,733 in the Debt Service Fund.

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 (on pages 18 and 19). 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 (starting on page 20) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For government 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 remaining statements, 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 (starting on page 25) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The section labeled Other Supplementary Information contains 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

The analysis of the District's overall financial condition and operations begins on page 18. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities 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 the U.S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (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 and liabilities) provides one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial 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.

In the Statement of Net Position and the Statement of Activities, the following activities are presented.

- i Governmental activities—Most of the District's basic services are reported here, including instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services, and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin on page 20 and provide detailed information about the most significant funds-not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education or the Debt Service Fund required by bond covenants. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities).

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 difference 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. These fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 24. 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

Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental and business-type activities.

- i Net position of the District's governmental activities increased in total from \$45.7 million to \$46.5 million. The net change was primarily comprised of a \$500 thousand increase in property tax collections and a \$276 thousand increase in state aid.

The District's pension liability increased from \$2.4 million at August 31, 2015 to \$7.2 million at August 31, 2016.

Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased from \$3.1 million to \$2.4 million at August 31, 2016. .

The District's total expenses of \$56.2 million were funded by charges for services totaling \$3.4 million, operating grants of \$8.4 million, and general revenues of \$45.2 million. General revenues consist principally of state aid and contributions of \$11 million and tax revenue of \$33.4 million.

Table I
Hallsville Independent School District

NET POSITION
in thousands

	Governmental Activities		
	2016	2015	% Change
Current and other assets	\$ 15,885	\$ 17,063	-6.9%
Capital assets	115,334	118,266	-2.5%
Total assets	131,219	135,329	-3.0%
Deferred outflow related to loss on defeasance of debt	250	331	-24.5%
Deferred outflow related to pensions	4,652	790.00	489%
Total deferred outflows	4,901	1,121	337.2%
Long-term liabilities	85,518	84,908	0.7%
Other liabilities	3,559	5,098	-30.2%
Total liabilities	89,077	90,006	-1.0%
Deferred inflow related to pensions	537	730	-26.4%
Net position:			
Net investment in capital assets	41,815	41,004	2.0%
Restricted	2,304	1,579	45.9%
Unrestricted	2,387	3,131	-23.8%
Total net position	46,506	\$ 45,714	1.7%

Table II
Hallsville Independent School District

CHANGES IN NET POSITION
in thousands

	Governmental Activities		
	2016	2015	% Change
Revenues:			
Program revenues:			
Charges for services	\$ 3,409	\$ 2,991	14.0%
Operating grants and contributions	8,388	6,956	20.6%
General revenues:			
Maintenance and operations taxes	25,419	24,860	2.2%
Debt service taxes	7,954	8,104	-1.9%
State aid - formula grants	10,974	10,698	2.6%
Investment earnings (losses)	85	32	165.6%
Miscellaneous	514	1,098	-53.2%
Special item	223	-	100.0%
Total Revenues	<u>56,966</u>	<u>54,739</u>	<u>4.1%</u>
Expenses:			
Instruction, curriculum and media services	28,370	26,810	5.8%
Instructional and school leadership	3,877	3,364	15.2%
Student support services	4,715	4,006	17.7%
Child nutrition	1,841	1,725	6.7%
Cocurricular activities	2,425	2,382	1.8%
General administration	1,613	1,430	12.8%
Plant maintenance, security and data processing	7,590	6,614	14.8%
Community services	86	129	-33.3%
Debt services	4,084	4,210	-3.0%
Other intergovernmental charges	1,572	1,454	8.1%
Total Expenses	<u>56,173</u>	<u>52,124</u>	<u>7.8%</u>
Increase in net position	<u>793</u>	<u>2,615</u>	<u>-69.7%</u>
Net position at Beginning	<u>45,714</u>	<u>45,801</u>	<u>-0.2%</u>
Prior period adjustment	<u>-</u>	<u>(2,702)</u>	<u>-100.0%</u>
Net position at Beginning - As Restated	<u>45,714</u>	<u>43,099</u>	<u>6.1%</u>
Net position at Ending	<u>\$ 46,507</u>	<u>\$ 45,714</u>	<u>1.7%</u>

The District's total revenues increased by \$2.2 million over last year. This was primarily the result of \$1.4 million in operating grants and \$559,000 in increased maintenance and operations property taxes.

The net cost of all governmental activities this year was \$56 million. However, as shown in the Statement of Activities on page 19, the amount that our taxpayers ultimately financed for these activities through District taxes was \$33.4 million since some of the costs were paid by State and federal funding (\$19.4 million).

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 20) reported a combined fund balance of \$11 million, which increased by \$323,940 over last year. General Fund decreased by \$363,000 and the Debt Service Fund increased by \$399,000.

The Board of Trustees revised the District's budget during the year. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved to reflect the actual beginning balances (versus the amounts we estimated in August 2015). The second category involved amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs. The third category involved changes in state program revenues and local tax revenues.

The District's General Fund Balance of \$8.9 million reported on page 22 differs from the General Fund's budgetary fund balance of \$8.7 million reported in the budgetary comparison schedule on page 47.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the District had \$115.3 million invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration and maintenance.

More detailed information about the District's capital assets is presented in Note D to the financial statements.

Debt

The District has \$77.7 million in general obligation debt at coupon interest rates ranging from 4.27% to 5.97% outstanding at year-end. The District's general obligation bonds carried the highest possible rating, according to national rating agencies.

More detailed information about the District's long-term liabilities is presented in 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 budget and tax rates. One of those factors is appraised and taxable property values. These values were considered in setting the tax rate. Another factor was the change in state funding promulgated by the actions of the state's 84th legislative session. A new constitutional amendment allows for higher exempted homestead values, thus lowering taxable values on residential property. Legislators and state agencies will determine the amount of state aid to compensate for the loss of local tax revenues.

Additional factors were taken into account when adopting the General Fund budget for 2017. The District will continue to use its revenue to finance programs we currently offer. Throughout FY2017, the District's will closely analyze its budgetary General Fund Balance to ensure prudent management of property tax and local, state, and federal funds.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District'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, 2016

1

Data Control Codes		Governmental Activities
ASSETS:		
1110	Cash and Cash Equivalents	\$ 11,138,641
1120	Current Investments	2,004,989
1225	Property Taxes Receivable (Net)	1,479,016
1240	Due from Other Governments	995,356
1290	Other Receivables (Net)	21,203
1300	Inventories	233,157
1410	Unrealized Expenses	12,431
Capital Assets:		
1510	Land	4,759,235
1520	Buildings and Improvements, Net	108,649,651
1530	Furniture and Equipment, Net	1,925,314
1000	Total Assets	<u>131,218,993</u>
DEFERRED OUTFLOWS OF RESOURCES:		
	Deferred Outflow Related to Loss on Defeasance of Debt	249,742
1705	Deferred Outflow Related to Pensions	4,651,730
1700	Total Deferred Outflows of Resources	<u>4,901,472</u>
LIABILITIES:		
2110	Accounts Payable	394,459
2140	Interest Payable	179,216
2165	Accrued Liabilities	1,876,053
2177	Due to Fiduciary	1,110
2180	Due to Other Governments	734,388
2300	Unearned Revenue	373,809
Noncurrent Liabilities:		
2501	Due Within One Year	4,631,928
2502	Due in More Than One Year	73,663,572
2540	Net Pension Liability	7,222,087
2000	Total Liabilities	<u>89,076,622</u>
DEFERRED INFLOWS OF RESOURCES:		
2605	Deferred Inflow Related to Pensions	537,192
2600	Total Deferred Inflows of Resources	<u>537,192</u>
NET POSITION:		
3200	Net Investment in Capital Assets	41,815,396
Restricted For:		
3820	Federal and State Programs	363,733
3850	Debt Service	1,074,249
3860	Capital Projects	428
3870	Campus Activities	575,663
3890	Other Purposes	289,795
3900	Unrestricted	2,387,387
3000	Total Net Position	<u>\$ 46,506,651</u>

The accompanying notes are an integral part of this statement.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Functions/Programs	1	3	4	Net (Expense) Revenue and Changes in Net Position
		Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Governmental Activities
	Governmental Activities:				
11	Instruction	\$ 27,533,224	\$ 1,101,282	\$ 3,698,864	\$ (22,733,078)
12	Instructional Resources and Media Services	613,575	135,273	40,201	(438,101)
13	Curriculum and Staff Development	223,535	--	85,008	(138,527)
21	Instructional Leadership	1,415,625	175,418	186,875	(1,053,332)
23	School Leadership	2,461,253	--	189,693	(2,271,560)
31	Guidance, Counseling, & Evaluation Services	1,762,644	440,929	511,835	(809,880)
32	Social Work Services	92,490	--	7,592	(84,898)
33	Health Services	453,319	--	39,128	(414,191)
34	Student Transportation	2,406,852	--	164,473	(2,242,379)
35	Food Service	1,840,794	663,686	1,167,440	(9,668)
36	Cocurricular/Extracurricular Activities	2,424,477	889,850	71,817	(1,462,810)
41	General Administration	1,612,752	--	75,244	(1,537,508)
51	Facilities Maintenance and Operations	5,716,071	2,650	178,718	(5,534,703)
52	Security and Monitoring Services	560,151	--	46,810	(513,341)
53	Data Processing Services	1,314,272	--	63,288	(1,250,984)
61	Community Services	86,417	--	13,983	(72,434)
72	Interest on Long-term Debt	4,077,817	--	1,384,873	(2,692,944)
73	Bond Issuance Costs and Fees	6,013	--	--	(6,013)
93	Payments Related to Shared Services Arrangements	1,018,144	--	462,387	(555,757)
99	Other Intergovernmental Charges	554,204	--	--	(554,204)
TG	Total Governmental Activities	56,173,629	3,409,088	8,388,229	(44,376,312)
TP	Total Primary Government	<u>\$ 56,173,629</u>	<u>\$ 3,409,088</u>	<u>\$ 8,388,229</u>	<u>(44,376,312)</u>
	General Revenues:				
MT	Property Taxes, Levied for General Purposes				25,419,369
DT	Property Taxes, Levied for Debt Service				7,954,320
IE	Investment Earnings				84,497
GC	Grants and Contributions Not Restricted to Specific Programs				10,973,686
MI	Miscellaneous				514,448
	Special and Extraordinary Items:				
S1	Special Item Inflow				222,733
TR	Total General Revenues				<u>45,169,053</u>
CN	Change in Net Position				792,741
NB	Net Position - Beginning				45,713,910
NE	Net Position - Ending				<u>\$ 46,506,651</u>

The accompanying notes are an integral part of this statement.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2016

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:				
1110 Cash and Cash Equivalents	\$ 8,749,788	\$ 1,115,194	\$ 1,273,658	\$ 11,138,640
1120 Current Investments	2,004,989	--	--	2,004,989
1225 Taxes Receivable, Net	1,144,961	334,055	--	1,479,016
1240 Due from Other Governments	500,293	3,473	491,590	995,356
1260 Due from Other Funds	531,610	--	23,031	554,641
1290 Other Receivables	--	--	21,203	21,203
1300 Inventories	161,725	--	71,432	233,157
1410 Unrealized Expenditures	12,431	--	--	12,431
1000 Total Assets	<u>\$ 13,105,797</u>	<u>\$ 1,452,722</u>	<u>\$ 1,880,914</u>	<u>\$ 16,439,433</u>
LIABILITIES:				
Current Liabilities:				
2110 Accounts Payable	\$ 280,841	\$ --	\$ 113,618	\$ 394,459
2150 Payroll Deductions & Withholdings	(3,647)	--	--	(3,647)
2160 Accrued Wages Payable	1,517,588	--	89,893	1,607,481
2170 Due to Other Funds	24,141	199,257	332,353	555,751
2180 Due to Other Governments	734,346	--	42	734,388
2200 Accrued Expenditures	272,219	--	--	272,219
2300 Unearned Revenue	258,420	--	115,389	373,809
2000 Total Liabilities	<u>3,083,908</u>	<u>199,257</u>	<u>651,295</u>	<u>3,934,460</u>
DEFERRED INFLOWS OF RESOURCES:				
Uncollected Property Taxes	1,144,962	334,056	--	1,479,018
2600 Total Deferred Inflows of Resources	<u>1,144,962</u>	<u>334,056</u>	<u>--</u>	<u>1,479,018</u>
FUND BALANCES:				
Nonspendable Fund Balances:				
3410 Inventories	161,725	--	43,867	205,592
3430 Prepaid Items	12,431	--	--	12,431
Restricted Fund Balances:				
3450 Federal/State Funds Grant Restrictions	--	--	319,866	319,866
3470 Capital Acquisitions & Contractual Obligations	--	--	428	428
3480 Retirement of Long-Term Debt	--	919,409	--	919,409
3490 Other Restrictions of Fund Balance	--	--	289,795	289,795
Committed Fund Balances:				
3545 Other Committed Fund Balance	50,000	--	575,663	625,663
3600 Unassigned	8,652,771	--	--	8,652,771
3000 Total Fund Balances	<u>8,876,927</u>	<u>919,409</u>	<u>1,229,619</u>	<u>11,025,955</u>
4000 Total Liabilities, Deferred Inflow of Resources and Fund Balances	<u>\$ 13,105,797</u>	<u>\$ 1,452,722</u>	<u>\$ 1,880,914</u>	<u>\$ 16,439,433</u>

The accompanying notes 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, 2016

Total fund balances - governmental funds balance sheet	\$ 11,025,955
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	115,334,200
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	1,479,018
Payables for bond principal which are not due in the current period are not reported in the funds.	(77,700,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(179,216)
Payables for notes which are not due in the current period are not reported in the funds.	(298,593)
Payables for contracts which are not due in the current period are not reported in the funds.	(296,907)
The deferred loss on defeasance of debt is not reported in the funds.	249,742
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(7,222,087)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(537,192)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	4,651,730
Rounding	1
Net position of governmental activities - Statement of Net Position	\$ <u>46,506,651</u>

The accompanying notes are an integral part of this statement.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 Local and Intermediate Sources	\$ 26,236,337	\$ 7,965,234	\$ 3,140,174	\$ 37,341,745
5800 State Program Revenues	12,828,737	135,520	266,373	13,230,630
5900 Federal Program Revenues	1,536,229	--	3,501,688	5,037,917
5020 Total Revenues	<u>40,601,303</u>	<u>8,100,754</u>	<u>6,908,235</u>	<u>55,610,292</u>
EXPENDITURES:				
Current:				
0011 Instruction	22,012,275	--	2,054,183	24,066,458
0012 Instructional Resources and Media Services	507,981	--	44,147	552,128
0013 Curriculum and Staff Development	131,366	--	86,237	217,603
0021 Instructional Leadership	938,091	--	326,003	1,264,094
0023 School Leadership	2,119,507	--	--	2,119,507
0031 Guidance, Counseling, & Evaluation Services	733,241	--	861,272	1,594,513
0032 Social Work Services	79,379	--	--	79,379
0033 Health Services	401,907	--	1,090	402,997
0034 Student Transportation	2,348,164	--	--	2,348,164
0035 Food Service	23,031	--	1,788,139	1,811,170
0036 Cocurricular/Extracurricular Activities	1,614,178	--	982,864	2,597,042
0041 General Administration	1,460,155	--	1,500	1,461,655
0051 Facilities Maintenance and Operations	5,360,839	--	--	5,360,839
0052 Security and Monitoring Services	499,572	--	--	499,572
0053 Data Processing Services	1,257,883	--	--	1,257,883
0061 Community Services	68,860	--	7,593	76,453
0071 Principal on Long-term Debt	450,000	3,980,000	--	4,430,000
0072 Interest on Long-term Debt	155,328	3,944,643	--	4,099,971
0073 Bond Issuance Costs and Fees	6,013	--	--	6,013
0093 Payments to Shared Service Arrangements	555,757	--	462,387	1,018,144
0099 Other Intergovernmental Charges	554,204	--	--	554,204
6030 Total Expenditures	<u>41,277,731</u>	<u>7,924,643</u>	<u>6,615,415</u>	<u>55,817,789</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	<u>(676,428)</u>	<u>176,111</u>	<u>292,820</u>	<u>(207,497)</u>
Other Financing Sources and (Uses):				
7912 Sale of Real or Personal Property	10,111	--	--	10,111
7914 Issuance of Non-Current Debt	298,593	--	--	298,593
7915 Transfers In	4,950	--	--	4,950
8911 Transfers Out	--	--	(4,950)	(4,950)
7080 Total Other Financing Sources and (Uses)	<u>313,654</u>	<u>--</u>	<u>(4,950)</u>	<u>308,704</u>
SPECIAL ITEM:				
7918 Special Item (Resource)	--	222,733	--	222,733
1200 Net Change in Fund Balances	<u>(362,774)</u>	<u>398,844</u>	<u>287,870</u>	<u>323,940</u>
0100 Fund Balances - Beginning	9,239,701	520,565	941,749	10,702,015
3000 Fund Balances - Ending	<u>\$ 8,876,927</u>	<u>\$ 919,409</u>	<u>\$ 1,229,619</u>	<u>\$ 11,025,955</u>

The accompanying notes 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
FOR THE YEAR ENDED AUGUST 31, 2016

Net change in fund balances - total governmental funds	\$ 323,940
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	635,008
The depreciation of capital assets used in governmental activities is not reported in the funds.	(3,566,579)
The gain or loss on the sale of capital assets is not reported in the funds.	2,900
All proceeds from the sale of capital assets are reported in the funds but not in the SOA.	(2,900)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	29,865
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	4,430,000
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(81,315)
(Increase) decrease in accrued interest from beginning of period to end of period.	6,843
Proceeds of notes do not provide revenue in the SOA, but are reported as current resources in the funds.	(298,593)
Bond premiums are reported in the funds but not in the SOA.	96,625
Pension contributions expended in the prior fiscal year.	(597,887)
Pension contributions made for the measurement period ended 8/31/15.	604,971
Pension contributions made after the measurement date but in current FY were de-expended and reduced NP	631,695
The District's share of the unrecognized deferred inflows and outflows for the pension plan was amortized.	150,024
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	(1,571,859)
Rounding	3
Change in net position of governmental activities - Statement of Activities	\$ <u>792,741</u>

The accompanying notes are an integral part of this statement.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

AUGUST 31, 2016

Data Control Codes		Agency Funds
ASSETS:		
1110	Cash and Cash Equivalents	\$ 53,619
1260	Due from Other Funds	1,110
1000	Total Assets	<u>54,729</u>
LIABILITIES:		
Current Liabilities:		
2190	Due to Student Groups	\$ 54,729
2000	Total Liabilities	<u>54,729</u>
NET POSITION:		
3000	Total Net Position	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

A. Summary of Significant Accounting Policies

The basic financial statements of Hallsville Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has 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 ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental reporting entity and there are no component units included within the District's reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Debt Service Fund: The District accounts for resources used to repay debt of the District in the Debt Service Fund.

In addition, the District reports the following fund types:

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

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

returned to the grantor at the close of specified project periods.

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. 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. 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. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

3. Financial Statement Amounts

a. Property Taxes

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

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon 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. The allowance for uncollectible property taxes at August 31, 2016 is \$25,412.

b. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	30 - 50
Building Improvements	10 - 20
Vehicles	5
Office Equipment	10
Computer Equipment	10

d. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) 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 and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements 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 one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

e. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

g. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED AUGUST 31, 2016

h. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to ensure accuracy in building a statewide database for policy development and funding plans.

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

The District's Board of Trustees has adopted a resolution which sets a policy to maintain a total fund balance in the District's General Fund of at least 20% of total annual operating expenditures in that fund and an unassigned fund balance of at least 15% of total annual operating expenditures. The District was in compliance with its fund balance policies as of August 31, 2016.

j. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

k. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted

HALLSVILLE INDEPENDENT SCHOOL DISTRICT **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED AUGUST 31, 2016**

resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

4. 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' 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.

At August 31, 2016, the District reported the following:

Net Pension Asset	\$	--
Net Pension Liability	\$	7,222,087

5. New Accounting Standards Adopted

In fiscal year 2016, the District adopted four new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 72, *Fair Value Measurement and Application*
- Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*
- Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*
- Statement No. 77, *Tax Abatement Disclosures*

- a. Statement No. 72 requires state and local governments to measure investments at fair value using a consistent definition and valuation techniques; also defines what assets and liabilities governments should measure at fair value and expands fair value disclosures in financial disclosure notes. While the Statement generally requires restatement of prior period balances in the year of implementation, the nature of the District's investments was such that their carrying amount was not affected.
- b. Statement No. 73 extends the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to the financial statements and required supplementary information by all similarly situated employers and nonemployer contributing entities.
- c. The GAAP hierarchy prioritizes guidance governments follow when preparing U.S. GAAP financial statements. Statement No. 76 reduces authoritative GAAP hierarchy from four categories to two and lists the order of priority for pronouncements to which a government should look for guidance.
- d. Statement No. 77 requires governments granting tax abatements to individuals and businesses to disclose program information in the notes to the financial statements through the agreement's duration and also requires disclosures about tax abatements entered into by other governments that reduce the reporting government's tax revenue. Prior year balances were not restated because there are no tax abatements associated with the District or any other government which affect the District's tax revenue.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT **NOTES TO THE FINANCIAL STATEMENTS** **FOR THE YEAR ENDED AUGUST 31, 2016**

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
Expenditures exceeded budget appropriations in six functions of the General Fund.	District administrators will more closely monitor expenditures in relation to budget and will submit budget amendments to the Board of Trustees for approval in a timely manner, as needed.
The District expended \$61,010 in the Food Service Fund for capital assets without the required preapproval of Texas Department of Agriculture.	The District will submit a request to the Texas Department of Agriculture for retroactive approval of the purchases.

2. Deficit Fund Balance or Fund Net Position of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2016, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$3,430,176 and the bank balance was \$4,064,109. The District's cash deposits at August 31, 2016 and during the year ended August 31, 2016, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, 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, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District adhered to the

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The District's investments at August 31, 2016 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Lone Star Investment Pool	41-53 days	\$ 9,744,773
Texpool	Avg 42 days	12,179
TexSTAR	51-106 days	4,946
Certificates of Deposit	120 days	2,004,989
Total on deposit in investment pools		11,766,887
Less amount reported as cash equivalent on financial statements		(9,761,898)
Total Investments		<u>\$ 2,004,989</u>

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

At August 31, 2016, the District's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

<u>Investment</u>	<u>S & P Rating</u>
Lone Star Investment Pool - Corporate Overnight Plus	AAA
TexPool	AAAm
TexSTAR	AAAm

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

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This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

TexSTAR

The District invests in the Texas Short Term Asset Reserve Program (TexSTAR), which has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexSTAR is managed by a five-member board of directors (Board). In accordance with the Public Funds Investment Act, TexSTAR maintains an advisory board composed of participants in TexSTAR and other persons who do not have a business relationship with TexSTAR. Advisory board members are appointed and serve at the will of the Board of Directors. J. P. Morgan Investment Management, Inc. (JPMIM) and First Southwest Company (FSC) serve as co-administrators for TexSTAR under an agreement with the Board. JPMIM provides investment management services, and FSC provides participant services and marketing. Custodial, fund accounting and depository services are provided by JPMorgan Chase Bank, N.A. and/or its subsidiary J.P. Morgan Investor Services Co. Transfer agency services are provided by Boston Financial Data Services, Inc. The business affairs of TexSTAR are managed by the Board in accordance with its bylaws. The bylaws set forth procedures governing the selection of, and action taken by, the Board. Board oversight of TexSTAR is maintained through various reporting requirements. TexSTAR is rated AAAM by Standard and Poor's and is not operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which generally approximates the market value of the securities. The stated objective of TexSTAR is to maintain a stable \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured.

Lone Star

The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal

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Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards (TASB), with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's assets. State Street Bank provides custody and valuation services to Lone Star. All of the board of trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and non-members. Lone Star is rated AAA by Standard and Poor's and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. The District is invested in the Corporate Overnight Plus Fund of Lone Star which seeks to maintain a net asset value of one dollar. Lone Star has 3 different funds: Government Overnight, Corporate Overnight and Corporate Overnight Plus. Government and Corporate Overnight maintain a net asset value of one dollar and the Corporate Overnight Plus maintains a net asset value of 50 cents.

TexPool

The District invests in the Texas Local Government Investment Pool (TexPool), which is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board to advise with respect to TexPool. The board is composed equally of participants in TexPool Portfolios and other persons who do not have a business relationship with TexPool Portfolios and are qualified to advise in respect to TexPool Portfolios. The Advisory Board members review the investment policy and management fee structure. TexPool is rated AAAm by Standard & Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at www.ttstc.org.

D. Capital Assets

Capital asset activity for the year ended August 31, 2016, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 4,759,235	\$ --	\$ --	\$ 4,759,235
Total capital assets not being depreciated	4,759,235	--	--	4,759,235
Capital assets being depreciated:				
Buildings and improvements	140,961,347	10,260	--	140,971,607
Equipment	5,132,179	409,198	--	5,541,377
Vehicles	4,718,905	215,550	102,034	4,832,421
Total capital assets being depreciated	150,812,431	635,008	102,034	151,345,405
Less accumulated depreciation for:				
Buildings and improvements	(29,128,062)	(3,193,894)	--	(32,321,956)
Equipment	(3,549,448)	(300,456)	--	(3,849,904)
Vehicles	(4,628,385)	(72,229)	(102,034)	(4,598,580)
Total accumulated depreciation	(37,305,895)	(3,566,579)	(102,034)	(40,770,440)
Total capital assets being depreciated, net	113,506,536	(2,931,571)	--	110,574,965
Governmental activities capital assets, net	\$ 118,265,771	\$ (2,931,571)	\$ --	\$ 115,334,200

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Depreciation was charged to functions as follows:

Instruction	\$ 2,286,650
Instructional Resources and Media Services	39,940
Curriculum and Staff Development	4,219
Instructional Leadership	85,525
School Leadership	226,133
Guidance, Counseling, & Evaluation Services	73,174
Social Work Services	8,633
Health Services	36,563
Student Transportation	172,718
Food Services	61,905
Extracurricular Activities	82,976
General Administration	104,171
Plant Maintenance and Operations	261,690
Security and Monitoring Services	50,560
Data Processing Services	65,020
Community Services	6,702
	<u>\$ 3,566,579</u>

E. Interfund Balances and Activities

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	Purpose
General Fund	Other Governmental Funds	\$ 332,353	Short-term loans
General Fund	Debt Service Fund	199,257	Short-term loans
Agency Fund	General Fund	1,110	Short-term loans
Other Governmental Funds	General Fund	23,031	Short-term loans
	Total	<u>\$ 555,751</u>	

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

2. Transfers To and From Other Funds

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

Transfers From	Transfers To	Amount	Reason
Other Governmental Fund	General Fund	\$ 4,950	Reimburse expenditures
	Total	<u>\$ 4,950</u>	

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.

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2016, are as follows:

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	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
Unlimited tax & refunding bonds	\$ 82,130,000	\$ --	\$ 4,430,000	\$ 77,700,000	\$ 4,575,000
Notes payable	--	298,593	--	298,593	56,928
Unamortized bond premium	393,532	--	96,625	296,907	--
Total governmental activities	<u>\$ 82,523,532</u>	<u>\$ 298,593</u>	<u>\$ 4,526,625</u>	<u>\$ 78,295,500</u>	<u>\$ 4,631,928</u>

2. Bonds Payable

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	\$ 71,725,000
Series 2013 Unlimited Tax Refunding Bonds	2.00 - 4.00%	2/15/2017	1,265,000
Series 2014 Unlimited Tax Refunding Bonds	3.00 - 3.65%	2/15/2025	4,710,000
			<u>\$ 77,700,000</u>

3. Notes Payable

Notes payable currently outstanding are as follows:

Government Capital Corporation: Principal balance of \$298,593, interest rate of 2.45%, maturing 8/1/2021.

4. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2016, are as follows:

<u>Year Ending August 31,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 4,631,928	\$ 3,934,103	\$ 8,566,031
2018	4,843,241	3,743,663	8,586,904
2019	4,989,668	3,531,056	8,520,724
2020	5,141,130	3,305,245	8,446,375
2021	5,302,626	3,061,930	8,364,556
2022-2026	28,415,000	11,121,953	39,536,953
2027-2030	24,675,000	2,996,803	27,671,803
Totals	<u>\$ 77,998,593</u>	<u>\$ 31,694,753</u>	<u>\$ 109,693,346</u>

G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2016, 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.

H. Pension Plan

1. Plan Description

The District participates in a cost-sharing multiple-employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS' defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The TRS pension trust fund is a qualified pension

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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.

2. Pension Plan Fiduciary Net Position

Detailed information about the TRS' 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 www.trs.state.tx.us/about/documents/cafr.pdf#CAFR; by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

3. 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 in (1.) above.

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

Contribution Rates		
	2015	2016
Member	6.7%	7.2%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2016 Employer Contributions	\$ 631,695	
District's 2016 Member Contributions	\$ 2,010,877	
NECE 2015 On-Behalf Contributions to District	\$ 1,610,905	

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

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

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

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

- When employing a retiree of the TRS the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district or charter school 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.

5. Actuarial Assumptions

The total pension liability in the August 31, 2015 actuarial evaluation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8%
Long-term expected Investment Rate of Return	8%
Inflation	2.5%
Salary Increases including inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

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6. Discount Rate

The discount rate used to measure the total pension liability was 8%. 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 System's target asset allocation as of August 31, 2015 are summarized below:

Teacher Retirement System of Texas Asset Allocation and Long-Term Expected Real Rate of Return As of August 31, 2015			
	Target Allocation	Long-term Expected Geometric Real Rate of Return	Expected Contribution to Long-term Portfolio Returns *
Global Equity			
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%
Stable Value			
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%
Real Return			
Global Inflat. Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy & Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

* The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

7. 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 2015 net pension liability.

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	1% Decrease in Discount Rate 7%	Discount Rate 8%	1% Increase in Discount Rate 9%
District's proportionate share of the net pension liability	\$ 11,315,654	\$ 7,222,087	\$ 3,812,406

8. Pension Liabilities, Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

At August 31, 2016, the District reported a liability of \$7,222,087 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	\$ 7,222,087
State's proportionate share of the net pension liability associated with the District	19,225,141
Total	<u>\$ 26,447,228</u>

The net pension liability was measured as of August 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 through August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.0204310%. which was an increase (decrease) of 0.0115031% from its proportion measured as of August 31, 2014.

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:

Economic Assumptions

- The inflation assumption was decreased from 3.00% to 2.50%
- The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.
- In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
- The payroll growth assumption was lowered from 3.50% to 2.50%

Mortality Assumptions

- The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to

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improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

- h. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
- i. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
- j. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
- k. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
- l. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

- m. The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

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, 2016, the District recognized pension expense of \$2,739,273 and revenue of \$2,739,273 for support provided by the State.

At August 31, 2016, the District reported its proportionate share of the TRS' 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	\$ 30,673	\$ 277,551
Changes in actuarial assumptions	128,918	257,652
Difference between projected and actual investment earnings	1,231,978	--
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	2,628,466	1,989
District contributions paid to TRS subsequent to the measurement date	631,695	--
Total	\$ 4,651,730	\$ 537,192

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The net amounts of the District's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended August 31	Pension Expense Amount
2017	\$ 649,003
2018	\$ 649,003
2019	\$ 649,005
2020	\$ 831,223
2021	\$ 384,650
Thereafter	\$ 319,959

I. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

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

b. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas contribution rate was 1% for fiscal years 2016, 2015, and 2014. The active public school employee contributions rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2016, 2015 and 2014. For the years ended August 31, 2016, 2015, and 2014, the State's contributions to TRS-Care were \$279,328, \$270,573, and \$249,727, respectively, the active member contributions were \$181,567, \$175,876, and \$162,323, respectively, and the District's contributions were \$153,157, \$148,812, and \$137,350, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2016, 2015, and 2014, the subsidy payments received by TRS-Care on behalf of the District were \$109,068, \$81,175, and \$67,730, respectively.

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FOR THE YEAR ENDED AUGUST 31, 2016

J. Employee Health Care Coverage

During the year ended August 31, 2016, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$225 per month per employee to the Plan. The District pays an additional \$100 per month for bus drivers and an additional \$37 per month for bus monitors. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the licensed insurer is renewable September 1, 2016, and terms of coverage and premium costs are included in the contractual provisions.

K. Commitments and Contingencies

1. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. As reported in Note B, the District did not request approval for purchase of capital assets prior to the purchase. The amount of the questioned expenditures total \$61,010. The District may request retroactive approval for these expenditures; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the District at August 31, 2016.

L. 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-B Formula; Special Revenue Fund 314, SSA-IDEA-B 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	\$ 323,314
Harleton ISD	242,486
Karnack ISD	40,414
Waskom ISD	242,485
Hallsville ISD	1,172,013
Total	<u>\$ 2,020,712</u>

M. Subsequent Events

Management has evaluated subsequent events through January 19, 2017, the date on which the financial statements were available to be issued.

N. Workers' Compensation Coverage

The District joined together with other districts in the East Texas area to form the East Texas Education Insurance

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

Association, a public entity risk pool currently operating a workers' compensation risk management and insurance program for various member school districts. During the 2015-16 school year, the District paid a fixed cost in the amount of \$68,110 for administration of claims, loss control, recordkeeping, and the cost of stop-loss insurance.

Total workers' compensation claims and loss funding sharing payments were \$59,393 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, 2016	\$ 251,174	\$ 80,438	\$ (59,393)	\$ 272,219
Year ended August 31, 2015	254,589	82,698	(86,113)	251,174

O. Other Restrictions/Assignments of Fund Balance

Other restrictions of fund balance consist of the following:

Other Governmental Funds:

Restricted for Special Education \$ 289,795

Other commitments of fund balance consist of the following:

General Fund:

Committed for insurance deductibles \$ 50,000

Other Governmental Funds:

Committed for campus activity funds \$ 575,663

P. Special Item

During the fiscal year ended August 31, 2016, the District settled an outstanding claim for refund of previously collected property taxes. In 2011, the District had recognized a contingent liability in the amount of \$1.8 million in its financial statements. The final settlement was less than the estimated potential liability, and the District has recorded a special item in the amount of \$222,733 in the Debt Service Fund to account for the reduced settlement amount.

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Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES:					
5700	Local and Intermediate Sources	\$ 25,900,063	\$ 25,900,063	\$ 26,236,337	\$ 336,274
5800	State Program Revenues	13,379,796	13,379,796	12,828,737	(551,059)
5900	Federal Program Revenues	1,566,700	1,566,700	1,536,229	(30,471)
5020	Total Revenues	40,846,559	40,846,559	40,601,303	(245,256)
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	22,670,334	22,276,980	22,012,275	264,705
0012	Instructional Resources and Media Services	508,482	508,482	507,981	501
0013	Curriculum and Staff Development	250,000	199,000	131,366	67,634
	Total Instruction & Instr. Related Services	23,428,816	22,984,462	22,651,622	332,840
Instructional and School Leadership:					
0021	Instructional Leadership	1,013,333	977,260	938,091	39,169
0023	School Leadership	2,084,596	2,130,596	2,119,507	11,089
	Total Instructional & School Leadership	3,097,929	3,107,856	3,057,598	50,258
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	691,453	710,753	733,241	(22,488)
0032	Social Work Services	79,154	79,254	79,379	(125)
0033	Health Services	380,133	411,133	401,907	9,226
0034	Student (Pupil) Transportation	2,078,540	2,431,038	2,348,164	82,874
0035	Food Services	--	--	23,031	(23,031)
0036	Cocurricular/Extracurricular Activities	1,321,974	1,331,974	1,614,178	(282,204)
	Total Support Services - Student (Pupil)	4,551,254	4,964,152	5,199,900	(235,748)
Administrative Support Services:					
0041	General Administration	1,544,647	1,561,562	1,460,155	101,407
	Total Administrative Support Services	1,544,647	1,561,562	1,460,155	101,407
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	5,261,001	5,485,006	5,360,839	124,167
0052	Security and Monitoring Services	487,889	522,589	499,572	23,017
0053	Data Processing Services	787,880	1,001,861	1,257,883	(256,022)
	Total Support Services - Nonstudent Based	6,536,770	7,009,456	7,118,294	(108,838)
Ancillary Services:					
0061	Community Services	71,742	74,742	68,860	5,882
	Total Ancillary Services	71,742	74,742	68,860	5,882
Debt Service:					
0071	Principal on Long-Term Debt	450,000	450,000	450,000	--
0072	Interest on Long-Term Debt	170,026	154,528	155,328	(800)
0073	Bond Issuance Costs and Fees	5,000	5,000	6,013	(1,013)
	Total Debt Service	625,026	609,528	611,341	(1,813)
Intergovernmental Charges:					
0093	Payments to Fiscal Agent/Member Dist.-SSA	410,334	555,757	555,757	--
0099	Other Intergovernmental Charges	576,000	554,205	554,204	1
	Total Intergovernmental Charges	986,334	1,109,962	1,109,961	1

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT G-1

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
6030	Total Expenditures	<u>40,842,518</u>	<u>41,421,719</u>	<u>41,277,731</u>	<u>143,988</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>4,041</u>	<u>(575,160)</u>	<u>(676,428)</u>	<u>(101,268)</u>
	Other Financing Sources (Uses):				
7912	Sale of Real or Personal Property	--	--	10,111	10,111
7914	Issuance of Non-Current Debt	--	--	298,593	298,593
7915	Transfers In	--	--	4,950	4,950
7080	Total Other Financing Sources and (Uses)	<u>--</u>	<u>--</u>	<u>313,654</u>	<u>313,654</u>
1200	Net Change in Fund Balance	<u>4,041</u>	<u>(575,160)</u>	<u>(362,774)</u>	<u>212,386</u>
0100	Fund Balance - Beginning	<u>9,239,701</u>	<u>9,239,701</u>	<u>9,239,701</u>	<u>--</u>
3000	Fund Balance - Ending	<u>\$ 9,243,742</u>	<u>\$ 8,664,541</u>	<u>\$ 8,876,927</u>	<u>\$ 212,386</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
LAST TEN FISCAL YEARS *

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
District's proportion of the net pension liability (asset)	0.0204310%	0.0089279%	--	--	--	--	--	--	--	--
District's proportionate share of the net pension liability (asset)	\$ 7,222,087	\$ 2,384,766	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
State's proportionate share of the net pension liability (asset) associated with the District	19,225,141	15,748,323	--	--	--	--	--	--	--	--
Total	\$ 26,447,228	\$ 18,133,089	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
District's covered-employee payroll	\$ 27,057,260	\$ 24,972,750	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	26.69%	9.55%	--	--	--	--	--	--	--	--
Plan fiduciary net position as a percentage of the total pension liability	78.43%	83.25%	--	--	--	--	--	--	--	--

Note: GASB Statement No. 68, Paragraph 81.2.a requires that the information on this schedule be data from the period corresponding with the period covered as of the TRS measurement date of August 31, 2015 - the period from September 1, 2014 - August 31, 2015.

Note: Only two years of data is presented in accordance with GASB Statement No. 68, Paragraph 138. "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 CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
LAST TEN FISCAL YEARS *

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 631,695	\$ 597,887	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Contributions in relation to the contractually required contribution	(631,695)	(597,887)	--	--	--	--	--	--	--	--
Contribution deficiency (excess)	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
District's covered-employee payroll	\$ 27,932,831	\$ 27,057,260	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Contributions as a percentage of covered-employee payroll	2.26%	2.21%	--	--	--	--	--	--	--	--

Note: GASB Statement No. 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2014 - August 31, 2015.

Note: Only two years of data is presented in accordance with GASB Statement No. 68, Paragraph 138. "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."

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Combining Statements and Budget Comparisons 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, 2016

Data Control Codes		Special Revenue Funds	Capital Projects Fund 2010 Bond Fund	Total Nonmajor Governmental Funds (See Exhibit C-1)
ASSETS:				
1110	Cash and Cash Equivalents	\$ 1,273,230	\$ 428	\$ 1,273,658
1240	Due from Other Governments	491,590	--	491,590
1260	Due from Other Funds	23,031	--	23,031
1290	Other Receivables	21,203	--	21,203
1300	Inventories	71,432	--	71,432
1000	Total Assets	<u>\$ 1,880,486</u>	<u>\$ 428</u>	<u>\$ 1,880,914</u>
LIABILITIES:				
Current Liabilities:				
2110	Accounts Payable	\$ 113,618	\$ --	\$ 113,618
2160	Accrued Wages Payable	89,893	--	89,893
2170	Due to Other Funds	332,353	--	332,353
2180	Due to Other Governments	42	--	42
2300	Unearned Revenue	115,389	--	115,389
2000	Total Liabilities	<u>651,295</u>	<u>--</u>	<u>651,295</u>
FUND BALANCES:				
Nonspendable Fund Balances:				
3410	Inventories	43,867	--	43,867
Restricted Fund Balances:				
3450	Federal/State Funds Grant Restrictions	319,866	--	319,866
3470	Capital Acquisitions & Contractual Obligations	--	428	428
3490	Other Restrictions of Fund Balance	289,795	--	289,795
Committed Fund Balances:				
3545	Other Committed Fund Balance	575,663	--	575,663
3000	Total Fund Balances	<u>1,229,191</u>	<u>428</u>	<u>1,229,619</u>
4000	Total Liabilities and Fund Balances	<u>\$ 1,880,486</u>	<u>\$ 428</u>	<u>\$ 1,880,914</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Special Revenue Funds	Capital Projects Fund 2010 Bond Fund	Total Nonmajor Governmental Funds (See Exhibit C-2)
REVENUES:			
5700 Local and Intermediate Sources	\$ 3,140,173	\$ 1	\$ 3,140,174
5800 State Program Revenues	266,373	--	266,373
5900 Federal Program Revenues	3,501,688	--	3,501,688
5020 Total Revenues	6,908,234	1	6,908,235
EXPENDITURES:			
Current:			
0011 Instruction	2,054,183	--	2,054,183
0012 Instructional Resources and Media Services	44,147	--	44,147
0013 Curriculum and Staff Development	86,237	--	86,237
0021 Instructional Leadership	326,003	--	326,003
0031 Guidance, Counseling, & Evaluation Services	861,272	--	861,272
0033 Health Services	1,090	--	1,090
0035 Food Service	1,788,139	--	1,788,139
0036 Cocurricular/Extracurricular Activities	982,864	--	982,864
0041 General Administration	1,500	--	1,500
0061 Community Services	7,593	--	7,593
0093 Payments to Shared Service Arrangements	462,387	--	462,387
6030 Total Expenditures	6,615,415	--	6,615,415
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	292,819	1	292,820
Other Financing Sources and (Uses):			
8911 Transfers Out	(4,950)	--	(4,950)
7080 Total Other Financing Sources and (Uses)	(4,950)	--	(4,950)
1200 Net Change in Fund Balances	287,869	1	287,870
0100 Fund Balances - Beginning	941,322	427	941,749
3000 Fund Balances - Ending	\$ 1,229,191	\$ 428	\$ 1,229,619

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

AUGUST 31, 2016

Data Control Codes		211 ESEA Title I Improving Basic Programs	214 ESEA Title I Part A Capital Expenses	240 National School Breakfast/Lunch Program	244 Career and Tech Basic Grant
ASSETS:					
1110	Cash and Cash Equivalents	\$ --	\$ --	\$ 384,776	\$ --
1240	Due from Other Governments	170,703	71	44,747	250
1260	Due from Other Funds	--	--	23,031	--
1290	Other Receivables	--	--	21,203	--
1300	Inventories	--	--	71,432	--
1000	Total Assets	<u>\$ 170,703</u>	<u>\$ 71</u>	<u>\$ 545,189</u>	<u>\$ 250</u>
LIABILITIES:					
Current Liabilities:					
2110	Accounts Payable	\$ --	\$ --	\$ 94,389	\$ --
2160	Accrued Wages Payable	42,008	--	5,745	--
2170	Due to Other Funds	128,695	71	1,247	250
2180	Due to Other Governments	--	--	--	--
2300	Unearned Revenue	--	--	80,075	--
2000	Total Liabilities	<u>170,703</u>	<u>71</u>	<u>181,456</u>	<u>250</u>
FUND BALANCES:					
Nonspendable Fund Balances:					
3410	Inventories	--	--	43,867	--
Restricted Fund Balances:					
3450	Federal/State Funds Grant Restrictions	--	--	319,866	--
3490	Other Restrictions of Fund Balance	--	--	--	--
Committed Fund Balances:					
3545	Other Committed Fund Balance	--	--	--	--
3000	Total Fund Balances	<u>--</u>	<u>--</u>	<u>363,733</u>	<u>--</u>
4000	Total Liabilities and Fund Balances	<u>\$ 170,703</u>	<u>\$ 71</u>	<u>\$ 545,189</u>	<u>\$ 250</u>

255 ESEA Title II Training & Recruiting	313 IDEA-B Formula	314 IDEA-B Preschool	381 Adult Basic Education State	397 Teacher Training Reimbursement
\$ --	\$ --	\$ --	\$ 42	\$ --
5,773	210,418	277	--	--
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
<u>\$ 5,773</u>	<u>\$ 210,418</u>	<u>\$ 277</u>	<u>\$ 42</u>	<u>\$ --</u>
\$ --	\$ 5,463	\$ --	\$ --	\$ --
--	20,535	--	--	--
5,773	184,420	277	--	--
--	--	--	42	--
--	--	--	--	--
<u>5,773</u>	<u>210,418</u>	<u>277</u>	<u>42</u>	<u>--</u>
--	--	--	--	--
--	--	--	--	--
--	--	--	--	--
<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
<u>\$ 5,773</u>	<u>\$ 210,418</u>	<u>\$ 277</u>	<u>\$ 42</u>	<u>\$ --</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

AUGUST 31, 2016

Data Control Codes		410 State Textbook Fund	434 Supplemental Visually Impaired
	ASSETS:		
1110	Cash and Cash Equivalents	\$ --	\$ 2
1240	Due from Other Governments	59,351	--
1260	Due from Other Funds	--	--
1290	Other Receivables	--	--
1300	Inventories	--	--
1000	Total Assets	<u>\$ 59,351</u>	<u>\$ 2</u>
	LIABILITIES:		
	Current Liabilities:		
2110	Accounts Payable	\$ 13,766	\$ --
2160	Accrued Wages Payable	--	--
2170	Due to Other Funds	10,271	2
2180	Due to Other Governments	--	--
2300	Unearned Revenue	35,314	--
2000	Total Liabilities	<u>59,351</u>	<u>2</u>
	FUND BALANCES:		
	Nonspendable Fund Balances:		
3410	Inventories	--	--
	Restricted Fund Balances:		
3450	Federal/State Funds Grant Restrictions	--	--
3490	Other Restrictions of Fund Balance	--	--
	Committed Fund Balances:		
3545	Other Committed Fund Balance	--	--
3000	Total Fund Balances	<u>--</u>	<u>--</u>
4000	Total Liabilities and Fund Balances	<u>\$ 59,351</u>	<u>\$ 2</u>

437 Special Education	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds (See Exhibit H-1)
\$ 312,747	\$ 575,663	\$ 1,273,230
--	--	491,590
--	--	23,031
--	--	21,203
--	--	71,432
<u>\$ 312,747</u>	<u>\$ 575,663</u>	<u>\$ 1,880,486</u>
\$ --	\$ --	\$ 113,618
21,605	--	89,893
1,347	--	332,353
--	--	42
--	--	115,389
<u>22,952</u>	<u>--</u>	<u>651,295</u>
--	--	43,867
--	--	319,866
289,795	--	289,795
--	575,663	575,663
<u>289,795</u>	<u>575,663</u>	<u>1,229,191</u>
<u>\$ 312,747</u>	<u>\$ 575,663</u>	<u>\$ 1,880,486</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		211 ESEA Title I Improving Basic Programs	214 ESEA Title I Part A Capital Expenses	240 National School Breakfast/Lunch Program	244 Career and Tech Basic Grant
REVENUES:					
5700	Local and Intermediate Sources	\$ --	\$ --	\$ 663,686	\$ --
5800	State Program Revenues	--	--	11,007	--
5900	Federal Program Revenues	635,453	77,753	1,155,624	43,361
5020	Total Revenues	635,453	77,753	1,830,317	43,361
EXPENDITURES:					
Current:					
0011	Instruction	617,121	77,753	--	38,154
0012	Instructional Resources and Media Services	--	--	--	--
0013	Curriculum and Staff Development	--	--	--	2,966
0021	Instructional Leadership	10,740	--	--	194
0031	Guidance, Counseling, & Evaluation Services	--	--	--	2,047
0033	Health Services	--	--	--	--
0035	Food Service	--	--	1,788,139	--
0036	Cocurricular/Extracurricular Activities	--	--	--	--
0041	General Administration	--	--	--	--
0061	Community Services	7,592	--	--	--
0093	Payments to Shared Service Arrangements	--	--	--	--
6030	Total Expenditures	635,453	77,753	1,788,139	43,361
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	--	--	42,178	--
Other Financing Sources and (Uses):					
8911	Transfers Out	--	--	--	--
7080	Total Other Financing Sources and (Uses)	--	--	--	--
1200	Net Change in Fund Balances	--	--	42,178	--
0100	Fund Balances - Beginning	--	--	321,555	--
3000	Fund Balances - Ending	\$ --	\$ --	\$ 363,733	\$ --

255 ESEA Title II Training & Recruiting	313 IDEA-B Formula	314 IDEA-B Preschool	381 Adult Basic Education State	397 Teacher Training Reimbursement
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	1,398	4,950
75,259	1,495,398	18,840	--	--
<u>75,259</u>	<u>1,495,398</u>	<u>18,840</u>	<u>1,398</u>	<u>4,950</u>
--	535,103	(1,351)	1,398	--
--	--	--	--	--
75,259	5,474	--	--	--
--	119,706	--	--	--
--	370,138	20,191	--	--
--	1,090	--	--	--
--	--	--	--	--
--	--	--	--	--
--	1,500	--	--	--
--	--	--	--	--
--	462,387	--	--	--
<u>75,259</u>	<u>1,495,398</u>	<u>18,840</u>	<u>1,398</u>	<u>--</u>
--	--	--	--	4,950
--	--	--	--	(4,950)
--	--	--	--	<u>(4,950)</u>
--	--	--	--	--
--	--	--	--	--
\$ --	\$ --	\$ --	\$ --	\$ --

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		410 State Textbook Fund	434 Supplemental Visually Impaired
REVENUES:			
5700	Local and Intermediate Sources	\$ --	\$ 11,385
5800	State Program Revenues	195,509	--
5900	Federal Program Revenues	--	--
5020	Total Revenues	<u>195,509</u>	<u>11,385</u>
EXPENDITURES:			
Current:			
0011	Instruction	195,509	11,428
0012	Instructional Resources and Media Services	--	--
0013	Curriculum and Staff Development	--	--
0021	Instructional Leadership	--	--
0031	Guidance, Counseling, & Evaluation Services	--	--
0033	Health Services	--	--
0035	Food Service	--	--
0036	Cocurricular/Extracurricular Activities	--	--
0041	General Administration	--	--
0061	Community Services	--	--
0093	Payments to Shared Service Arrangements	--	--
6030	Total Expenditures	<u>195,509</u>	<u>11,428</u>
1100	Excess (Deficiency) of Revenues Over (Under)		
1100	Expenditures	<u>--</u>	<u>(43)</u>
Other Financing Sources and (Uses):			
8911	Transfers Out	<u>--</u>	<u>--</u>
7080	Total Other Financing Sources and (Uses)	<u>--</u>	<u>--</u>
1200	Net Change in Fund Balances	<u>--</u>	<u>(43)</u>
0100	Fund Balances - Beginning	<u>--</u>	<u>43</u>
3000	Fund Balances - Ending	<u>\$ --</u>	<u>\$ --</u>

437 Special Education	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds (See Exhibit H-2)
\$ 958,201	\$ 1,506,901	\$ 3,140,173
53,509	--	266,373
--	--	3,501,688
<u>1,011,710</u>	<u>1,506,901</u>	<u>6,908,234</u>
329,083	249,985	2,054,183
--	44,147	44,147
--	2,538	86,237
159,455	35,908	326,003
468,896	--	861,272
--	--	1,090
--	--	1,788,139
--	982,864	982,864
--	--	1,500
--	1	7,593
--	--	462,387
<u>957,434</u>	<u>1,315,443</u>	<u>6,615,415</u>
54,276	191,458	292,819
--	--	(4,950)
--	--	(4,950)
<u>54,276</u>	<u>191,458</u>	<u>287,869</u>
235,519	384,205	941,322
<u>\$ 289,795</u>	<u>\$ 575,663</u>	<u>\$ 1,229,191</u>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
 AGENCY FUNDS
 AUGUST 31, 2016

Data Control Codes	865 Student Activity	895 HISD Activity	Total Agency Funds (See Exhibit E-1)
ASSETS:			
1110 Cash and Cash Equivalents	\$ 45,608	\$ 8,011	\$ 53,619
1260 Due from Other Funds	--	1,110	1,110
1000 Total Assets	<u>45,608</u>	<u>9,121</u>	<u>54,729</u>
LIABILITIES:			
Current Liabilities:			
2190 Due to Student Groups	\$ 45,608	\$ 9,121	\$ 54,729
2000 Total Liabilities	<u>45,608</u>	<u>9,121</u>	<u>54,729</u>
NET POSITION:			
3000 Total Net Position	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

HALLSVILLE INDEPENDENT SCHOOL DISTRICTSCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2016

Year Ended August 31	1		2		3	
	Tax Rates				Assessed/Appraised Value For School Tax Purposes	
	Maintenance		Debt Service			
2007 and Prior Years	\$	Various	\$	Various	\$	Various
2008		1.32		.339		2,447,413,116
2009		1.04		.28		2,779,886,230
2010		1.04		.313		2,563,762,443
2011		1.04		.313		2,094,590,522
2012		1.04		.383		2,170,797,892
2013		1.04		.35		2,260,174,748
2014		1.04		.353		2,276,705,675
2015		1.04		.343		2,386,180,356
2016 (School Year Under Audit)		1.04		.33		2,415,217,007

1000 Totals

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

10 Beginning Balance 9/1/15	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/16
\$ 227,751	\$ --	\$ 20,070	\$ 1,779	\$ (17,749)	\$ 188,153
39,217	--	1,854	616	(1,139)	35,608
56,258	--	2,900	796	(1,411)	51,151
73,034	--	5,969	1,797	(2,070)	63,198
94,918	--	26,073	7,847	14,154	75,152
151,330	--	42,185	6,307	16,010	118,848
164,393	--	41,040	13,812	16,507	126,048
207,711	--	52,820	17,928	16,874	153,837
465,686	--	184,774	60,940	12,548	232,520
--	33,088,473	24,693,983	7,835,591	(98,986)	459,913
<u>\$ 1,480,298</u>	<u>\$ 33,088,473</u>	<u>\$ 25,071,668</u>	<u>\$ 7,947,413</u>	<u>\$ (45,262)</u>	<u>\$ 1,504,428</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

HALLSVILLE INDEPENDENT SCHOOL DISTRICT**EXHIBIT J-2**

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
REVENUES:					
5700	Local and Intermediate Sources	\$ 721,080	\$ 721,080	\$ 663,686	\$ (57,394)
5800	State Program Revenues	10,234	10,234	11,007	773
5900	Federal Program Revenues	983,643	983,643	1,155,624	171,981
5020	Total Revenues	1,714,957	1,714,957	1,830,317	115,360
EXPENDITURES:					
Current:					
Support Services - Student (Pupil):					
0035	Food Services	1,700,265	1,850,265	1,788,139	62,126
	Total Support Services - Student (Pupil)	1,700,265	1,850,265	1,788,139	62,126
6030	Total Expenditures	1,700,265	1,850,265	1,788,139	62,126
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	14,692	(135,308)	42,178	177,486
1200	Net Change in Fund Balance	14,692	(135,308)	42,178	177,486
0100	Fund Balance - Beginning	321,555	321,555	321,555	--
3000	Fund Balance - Ending	\$ 336,247	\$ 186,247	\$ 363,733	\$ 177,486

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

DEBT SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	REVENUES:				
5700	Local and Intermediate Sources	\$ 8,008,653	\$ 8,008,653	\$ 7,965,234	\$ (43,419)
5800	State Program Revenues	--	--	135,520	135,520
5020	Total Revenues	<u>8,008,653</u>	<u>8,008,653</u>	<u>8,100,754</u>	<u>92,101</u>
	EXPENDITURES:				
	Debt Service:				
0071	Principal on Long-Term Debt	3,980,000	3,980,000	3,980,000	--
0072	Interest on Long-Term Debt	3,945,743	3,945,743	3,944,643	1,100
	Total Debt Service	<u>7,925,743</u>	<u>7,925,743</u>	<u>7,924,643</u>	<u>1,100</u>
6030	Total Expenditures	<u>7,925,743</u>	<u>7,925,743</u>	<u>7,924,643</u>	<u>1,100</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>82,910</u>	<u>82,910</u>	<u>176,111</u>	<u>93,201</u>
	SPECIAL ITEM:				
7918	Special Item (Resource)	--	--	222,733	222,733
1200	Net Change in Fund Balance	<u>82,910</u>	<u>82,910</u>	<u>398,844</u>	<u>315,934</u>
0100	Fund Balance - Beginning	520,565	520,565	520,565	--
3000	Fund Balance - Ending	\$ <u>603,475</u>	\$ <u>603,475</u>	\$ <u>919,409</u>	\$ <u>315,934</u>

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KAREN A. JACKS & ASSOCIATES, P.C.

Certified Public Accountants

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Independent Auditors' Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With Government Auditing Standards

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

Members of the Board of Trustees:

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, 2016, and the related notes to the financial statements, which collectively comprise Hallsville Independent School District's basic financial statements, and have issued our report thereon dated January 19, 2017.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2016-001 to be a material weakness.

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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as item(s) 2016-003 and 2016-004.

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.

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, P.C.

Longview, Texas
January 19, 2017

KAREN A. JACKS & ASSOCIATES, P.C.

Certified Public Accountants

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Independent Auditors' 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

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited the Hallsville Independent School District's 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 Hallsville Independent School District's major federal programs for the year ended August 31, 2016. Hallsville Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of 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 the 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the Hallsville Independent School District's compliance.

Basis for Modified Opinion on Child Nutrition Cluster

As described in item 2016-002 in the accompanying schedule of findings and questioned costs, the Hallsville Independent School District did not comply with requirements regarding Allowable Costs/Cost Principles that are applicable to its Child Nutrition Cluster. Compliance with such requirements is necessary, in our opinion,

for Hallsville Independent School District to comply with the requirements applicable to that program.

Qualified Opinion on Child Nutrition Cluster

In our opinion, except for the noncompliance described in the Basis for Modified Opinion paragraph, the 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 Child Nutrition Cluster for the year ended August 31, 2016.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the 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 other major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended August 31, 2016.

Report on Internal Control Over Compliance

Management of the 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 Hallsville Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the 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 Hallsville Independent School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Karen A. Jacks & Associates, P.C.

Karen A. Jacks & Associates, P.C.

Longview, Texas
January 19, 2017

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? X Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? X Yes No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

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

Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200? X Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
10.553	School Breakfast Program
10.555	National School Lunch Program
84.010a	ESEA Title I Part A - Improving Basic Education

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

Auditee qualified as low-risk auditee? Yes X No

B. Financial Statement Findings

Finding 2016-001:

Criteria:

A properly designed internal control structure provides for systems and procedures such that District employees, in the normal course of performing their assigned duties, will prevent, or detect and correct misstatements of the District's financial data on a timely basis.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

Condition:

The District does not have a systematic and routine year-end closing process to insure that all material financial statement account balances are accurate and that all significant accounts are reconciled as necessary.

Cause:

As reported in prior year Finding 2015-001, the District's business office has experienced vacancies and new hires in key positions over the past three years. Business office staff continue to work through the learning curve associated with new positions and have been provided with training and mentoring opportunities in an effort to develop appropriate reconciliation processes. However, the processes were not implemented to the extent necessary to mitigate year-end adjustments proposed during the audit.

Effect:

Reconciliations of cash accounts were not complete on four of the thirteen bank accounts. Interfund receivable and payable accounts were not in agreement between funds. Local, State and federal revenues and receivables were not fully reconciled and adjusted to actual. Material audit adjustments were required to properly report the District's financial statements as of and for the year ended August 31, 2016.

Recommendation:

District personnel should design and implement appropriate year-end closing and reconciliation procedures.

Finding 2016-003:

Criteria:

TEC Section 44.031 prescribes specific allowable methods for the purchase of goods and services valued at \$50,000 or more. Competitive bidding, competitive sealed proposals, or requests for proposals, including public notice published in a local newspaper, are required.

Condition:

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.

Cause:

The District's athletic director researched the potential purchase and recommended his selection for purchase. The Board of Trustees approved the purchase and the related borrowing to provide resources to make the purchase. However, no purchase order was submitted for approval and the budget was not amended to appropriate the necessary funds for the expenditure. Monitoring at the District was ineffective in that approvals were not documented and the absence of a bid procedure on this significant purchase was not detected.

Effect:

The District failed to comply with TEC Section 44.031, as well as the District's Purchasing and Acquisition policies CH(Legal) and CH(Local).

Recommendation:

Train all staff members having purchasing authority, approval authority, or vendor payment responsibilities on the provisions of TEC Sec. 44.031, CH(Legal) and CH(Local).

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED AUGUST 31, 2016

Finding 2016-004:

Criteria:

The Texas Education Agency requires that appropriations be provided at the function level of budgetary control before expenditures occur.

Condition:

Budgets for six functions in the General Fund were overexpended.

Cause:

Although the District amended its general fund budget throughout the fiscal year, material audit adjustments were required to properly report the purchase of the scoreboard (function 36) and two communication projects that were funded with e-Rate discount programs (function 53). In addition, the District incurred an obligation to reimburse its child nutrition program for certain student meals (function 35) and did not amend budget for the debt issuance costs associated with funds borrowed to purchase a scoreboard (function 73).

Effect:

The District was out of compliance with State budgetary requirements, as well as District policies CE(Legal) and CE(Local).

Recommendation:

District personnel should ensure that all material purchases are properly recorded in the accounting records and that all purchases are appropriated by Board approval prior to expenditure of funds.

C. Federal Award Findings and Questioned Costs

Finding 2016-002:

Criteria:

The Texas Department of Agriculture (TDA), as the pass-through agency for the federal Child Nutrition program, requires that purchases of capital assets costing \$5,000 or more be submitted by the District for approval prior to purchase.

Condition:

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.

Cause:

Inadequate training of District staff on the requirements of this program.

Effect:

The amount of the capital asset purchases, \$61,010, is a questioned cost of the Child Nutrition federal program.

Recommendation:

District personnel should familiarize themselves with the requirements of purchases for all federally funded programs. The District's internal purchase order approval process should provide for verification that all required third-party approvals have been obtained prior to issuance of the purchase order and that appropriations are provided for the purchase.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2016

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Finding 2015-1: <u>Condition</u> The District did not have a systematic and routine year-end closing process to insure that all material financial statement account balances are accurate and that all significant accounts are reconciled as necessary.</p>	<p>The condition recurred in the current year. See Finding 2016-001.</p>	<p>See the District's corrective action plan on Finding 2016-001.</p>

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2016

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

2016-001: Finding - The district does not have a systematic and routine year-end closing process.

Responsible Department: Finance

Corrective Action: This same finding was noted in the HISD Annual Financial Reports for FY2014 and FY2015. The district has a new leadership team that is committed to strengthening the processes needed to correct this finding by:

- 1) Continuing to improve staff training and mentoring;
- 2) Documenting all training completed by staff;
- 3) Providing that documentation to the CFO; and
- 4) Developing and implementing business office procedures. The procedures will be evaluated throughout the fiscal year to ensure that their implementation is effective and compliant with regulations and best practices.

2016-002: Finding - The district did not submit proposed purchases of capital assets of \$5,000 or more for the Child Nutrition Program to the Texas Department of Agriculture for approval.

Responsible Departments: Finance and Food Service

Corrective Action: District employees and contractors will become familiar with the requirements of the Texas Department of Agriculture's Child Nutrition Program purchasing requirements and its TXUNPS system used to enter and approve purchases of \$5,000 or more. The District will also develop procedures to ensure that all proposed Child Nutrition Program purchases of equipment will conform to EDGAR requirements, and are approved by the finance department and documented through regular reports from the TXUNPS system.

2016-003: Finding - The district failed to competitively bid the purchase of a scoreboard.

Responsible Departments: Finance and All

Corrective Action: The district will ensure that purchasing procedures are developed and implemented, that as part of those procedures all purchases conform to EDGAR and Texas Education Code 44.031 and TASB Legal and Local requirements, and all purchases above EDGAR or local thresholds and those requiring HISD board approval will be managed by the finance department.

2016-004: Finding - The district did not increase functional budgets to cover expenditures in six functional categories. Material adjustments were required to properly report some purchases.

Responsible Department: Finance

Corrective Action: The district will implement procedures for development and approval of purchases that may affect functional budget categories. The district will continue to monitor and reconcile budgets and expenditures by function on a quarterly or more frequent basis, as required, to ensure budgeted funds are available and, if necessary, budget increases are approved by the Board, prior to funds being expended.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT K-1
Page 1 of 2

(1)	(2)	(2A)		(3)
Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title	Federal CFDA Number	Pass- Through Entity Identifying Number	Passed Through to Subrecipients	Federal Expenditures
CHILD NUTRITION CLUSTER:				
<u>U. S. Department of Agriculture</u>				
Passed Through State Department of Education:				
School Breakfast Program	10.553	00536	\$ --	\$ 242,453
National School Lunch Program	10.555	00536	--	805,342
National School Lunch Program (Non-cash)	10.555	00536	--	107,829
Total CFDA Number 10.555			--	913,171
Total Passed Through State Department of Education			--	1,155,624
Total U. S. Department of Agriculture			--	1,155,624
Total Child Nutrition Cluster			--	1,155,624
SPECIAL EDUCATION (IDEA) CLUSTER:				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
SSA IDEA-B Formula	84.027	166600011029046600	462,387	1,442,973
SSA IDEA-B Formula	84.027	176600011029046600	--	52,425
Total CFDA Number 84.027			462,387	1,495,398
SSA IDEA-B Preschool	84.173	166610011029046610	--	18,840
Total CFDA Number 84.173			--	18,840
Total Passed Through State Department of Education			462,387	1,514,238
Total U. S. Department of Education			462,387	1,514,238
Total Special Education (IDEA) Cluster			462,387	1,514,238
OTHER PROGRAMS:				
<u>U. S. Department of Education</u>				
Passed Through State Department of Education:				
ESEA Title I Part A - Improving Basic Programs	84.010a	16610101102904	--	578,681
ESEA Title I Part A - Improving Basic Programs	84.010a	17610101102904	--	56,772
Total CFDA Number 84.010a			--	635,453
Career and Technical - Basic Grant	84.048	16420006102904	--	43,361
Total CFDA Number 84.048			--	43,361
ESEA Title I Part A - Capital Expenses	84.216a	16610103102904	--	77,682
ESEA Title I Part A - Capital Expenses	84.216a	17610103102904	--	71
Total CFDA Number 84.216a			--	77,753
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367a	16694501102904	--	75,259
Total CFDA Number 84.367a			--	75,259
Total Passed Through State Department of Education			--	831,826
Total U. S. Department of Education			--	831,826
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 462,387	\$ 3,501,688

The accompanying notes are an integral part of this schedule.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Hallsville Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200 *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note B - Reconciliation of Federal Revenues to Federal Expenditures

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	\$	3,501,688
Other Federal Revenues:		
Build America Bonds - Interest Subsidy		1,384,873
School Health and Related Services (SHARS)		151,356
Total Federal Revenues, Exhibit C-2	\$	<u>5,037,917</u>

Note C - Food Distribution

Nonmonetary assistance is reported in the schedule at fair market value of commodities received and disbursed. At August 31, 2016, the District had food commodities totaling \$27,565 in inventory.

HALLSVILLE INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2016

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds?	Yes
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts and laws related to local, state or federal funds?	Yes
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other governmental agencies?	Yes
SF8	Did the school district <u>not</u> receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	\$ --
SF11	Net Pension Assets (object 1920) at fiscal year-end.	\$ --
SF12	Net Pension Liabilities (object 2540) at fiscal year-end.	\$ 7,222,087
SF13	Pension Expense (object 6147) at fiscal year-end.	\$ 790,139