

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED
AUGUST 31, 2016

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CERTIFICATE OF THE BOARD

Hempstead Independent School District

WALLER

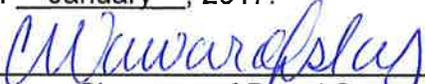
237-902

Name of School District

County

Co.-Dist Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and ✓ approved _____ disapproved for the year ended August 31, 2016 at a meeting of the Board of Trustees of such school district on the 23rd day of January, 2017.


Signature of Board Secretary


Signature of Board President

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

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

The Board of Trustees of
Hempstead Independent School District
1440 13th Street
Hempstead, Texas 77445

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hempstead Independent School District (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.

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hempstead Independent School District, as of August 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information, as listed 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.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hempstead Independent School District's basic financial statements. The Supplementary Information and Schedule of Required Responses to Selected School FIRST Indicators, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The 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 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 Schedule of Required Responses to Selected School FIRST Indicators 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 16, 2017 on our consideration of Hempstead 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 Hempstead Independent School District's internal control over financial reporting and compliance.

Yours truly,

Weaver and Tidwell, L.L.P.

Weaver and Tidwell, L.L.P.

Conroe, Texas
January 16, 2017

Management's Discussion and Analysis

As management of the Hempstead Independent School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended August 31, 2016.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$4,631,823 (net position). Of this amount, \$2,740,374 (unrestricted net position) may be used to meet the District's ongoing obligations to students and creditors.
- The District's net position increased by \$932,472 from current operations.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,645,155, an increase of \$607,009 in comparison with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$3,567,987, or 24 percent of total general fund expenditures.
- The District's total bonded debt decreased by \$604,436 (4 percent) primarily due to scheduled debt payments and a bond refunding to reduce the amount of future debt requirements.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *Statement of Net Position* presents information on all of the District's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *Statement of Activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

The government-wide financial statements of the District are principally supported by taxes and intergovernmental revenues (*governmental activities*). The governmental activities of the District include *Instruction, Instructional Resources and Media Services, Curriculum and Staff Development, Instructional Leadership, School Leadership, Guidance, Counseling, and Evaluation Services, Social Work Services, Health Services, Student Transportation, Food Service, Extracurricular Activities, General Administration, Plant Maintenance and Operations, Security Monitoring Services, Data Processing Services, Community Services, Interest on Long-term Debt, Issuance Costs and Fees, and Other Intergovernmental Charges, as applicable*.

The government-wide financial statements can be found as noted in the table of contents of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a District's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the District's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The District maintains fifteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund; and the ESEA Title I fund which are considered to be major funds. Data from the other twelve governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found as noted in the table of contents of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of students. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the District's own programs. The accounting used for fiduciary funds is similar to the accounting used for proprietary funds.

The basic fiduciary fund financial statements can be found as noted in the table of contents of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found as noted in the table of contents of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information and supplementary information, which

includes schedules required by the Texas Education Agency. Such information can be found as noted in the table of contents of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a District's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$4,631,823 at the close of the most recent fiscal year.

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT'S NET POSITION

	Governmental Activities					
	2016		2015		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Current and Other Assets	\$ 5,364,370	22	\$ 5,019,820	20	\$ 344,550	7
Capital Assets	18,664,102	78	19,515,134	80	(851,032)	(4)
Total Assets	24,028,472	100	24,534,954	100	(506,482)	
Total Deferred Outflows of Resources	2,111,293	100	333,236	100	1,778,057	534
Long-Term Liabilities Outstanding	20,213,572	96	19,589,604	94	623,968	3
Other Liabilities	812,077	4	1,218,065	6	(405,988)	(33)
Total Liabilities	21,025,649	100	20,807,669	100	217,980	
Total Deferred Inflows of Resources	482,293	100	361,170	100	121,123	34
Net Position:						
Net Investment in Capital Assets	1,890,009	41	2,648,623	72	(758,614)	(29)
Restricted	1,440	-	188,278	5	(186,838)	(99)
Unrestricted	2,740,374	59	862,450	23	1,877,924	218
Total Net Position	\$ 4,631,823	100	\$ 3,699,351	100	\$ 932,472	

The excess of assets/deferred outflows of resources over liabilities/deferred inflows of resources reported on the government-wide *Statement of Net Position* of \$4,631,823 at August 31, 2016 results from several factors. The most significant change in net position was the increases in state funding revenue and instruction expenses. The increase in net position results from the District's ability to cover increasing overall operating expenses with increasing state funding from an increase in average daily attendance.

The largest portion of the District's net position \$1,890,009 (41 percent) reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, furniture and equipment), less any related debt used to acquire those assets that are still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's net investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Net position (\$1,440 or less than 1 percent of net position) are restricted for grants. The remaining balance *unrestricted net position* (\$2,740,374) may be used to meet the District's ongoing obligations to students and creditors. At the end of the current fiscal year, the District is able to report positive balances in all categories of net position.

Governmental activities. Governmental activities increased the District's net position by \$932,472 from current operations. Key elements of this change are as follows:

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT'S CHANGES IN NET POSITION

	Governmental Activities					
	2016		2015		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Revenue:						
Program Revenues:						
Charges for Services	\$ 270,875	1	\$ 183,835	1	\$ 87,040	47
Operating Grants and Contributions	2,749,866	14	2,757,670	16	(7,804)	-
General Revenues:						
Property Taxes, Levied for General Purpose	5,856,222	31	5,503,274	32	352,948	6
Property Taxes, Levied for Debt Service	1,055,378	5	1,131,107	7	(75,729)	(7)
Grants and Contributions Not Restricted to Specific Programs	9,566,103	49	7,616,516	44	1,949,587	26
Investment Earnings	43,729	-	18,382	-	25,347	138
Miscellaneous	37,665	-	15,293	-	22,372	146
Total Revenues	19,579,838	100	17,226,077	100	2,353,761	
Expenses:						
Instruction	8,763,884	46	8,131,315	48	632,569	8
Instructional Resources and Media Services	189,961	1	184,844	1	5,117	3
Curriculum and Staff Development	577,157	3	207,743	1	369,414	178
Instructional Leadership	279,413	1	254,507	2	24,906	10
School Leadership	1,070,309	6	929,160	6	141,149	15
Guidance, Counseling, and Evaluation Services	513,356	3	643,082	4	(129,726)	(20)
Social Work Services	7,993	-	-	-	7,993	100
Health Services	107,252	1	97,839	1	9,413	10
Student Transportation	629,995	3	622,271	4	7,724	1
Food Service	951,997	5	848,472	5	103,525	12
Extracurricular Activities	841,689	5	654,934	4	186,755	29
General Administration	1,073,457	6	1,072,227	6	1,230	-
Plant Maintenance and Operations	1,651,723	9	1,534,438	9	117,285	8
Security Monitoring Services	239,345	1	163,684	1	75,661	46
Data Processing Services	913,163	5	411,112	2	502,051	122
Community Services	12,956	-	834	-	12,122	1,453
Interest on Long-term Debt	575,614	3	748,071	5	(172,457)	(23)
Issuance Costs and Fees	141,378	1	-	-	141,378	100
Other Intergovernmental Charges	106,724	1	107,156	1	(432)	-
Total Expenses	18,647,366	100	16,611,689	100	2,035,677	
Change in Net Position	932,472		614,388		318,084	
Net Position - Beginning	3,699,351		4,422,667		(723,316)	
Prior Period Adjustment - Implement GASB 68 and 71 for Pensions (a)	-		(1,337,704)		1,337,704	
Net Position - Beginning, as restated	3,699,351		3,084,963		614,388	
Net Position - Ending	\$ 4,631,823		\$ 3,699,351		\$ 932,472	

(a) The restatement of the beginning net position in fiscal year 2015 is the result of the District implementing GASB Statement No. 68 and 71 in fiscal year 20

Revenues are generated primarily from two sources. Grants and contributions (program and general revenues totaling \$12,315,969) represent 63 percent of total revenues and property taxes (\$6,911,600) represent 36 percent of total revenues. The remaining 1 percent is generated from investment earnings, charges for services, and miscellaneous revenues.

The primary functional expense of the District is instruction (\$8,763,884) which represents 46 percent of total expenses. The remaining functional categories of expenses are individually 10 percent or less of total expenditures.

Financial Analysis of the Government's Funds

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

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

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$3,645,155 an increase of \$607,009 in comparison with the prior year.

The general fund is the primary operating fund of the District. At year-end, unassigned and total fund balance of the general fund was \$3,567,987. To evaluate the general fund's liquidity, it may be helpful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned and total fund balance represents 24 percent of total general fund expenditures. The fund balance of the general fund increased \$828,698 during the year, primarily due to the District's ability to cover increasing overall operating expenditures, including significant increases in instruction and data processing services, with increases in state funding.

The debt service fund ended the year with a total fund balance of \$43,358, all of which is restricted for the payment of principal and interest on debt. The debt service fund balance did not incur any significant changes in revenues or expenditures.

The ESEA Title I fund ended the year with no fund balance as anticipated. The fund did not incur any significant changes in revenues or expenditures when compared to prior year.

Governmental funds financial statements may be found by referring to the table of contents.

General Fund Budgetary Highlights

The District amends the budget as needed throughout the year. The significant differences between the originally-adopted budget and the final amended budget of the general fund was primarily from an increase in state revenues of approximately \$900,000 resulting from an increase in state allotment. The overall increase in budgeted expenditures of \$1.9 million was from overall growth throughout the District.

There were no significant variations between final budget and actual results.

Capital Assets and Long-term Liabilities

Capital assets. The District's investment in capital assets for its governmental type activities as of August 31, 2016, amounts to \$18,664,102 (net of accumulated depreciation). This investment in capital assets includes land and improvements, buildings and improvements, furniture and equipment. The total decrease in the District's investment in capital assets for the current fiscal year was 4 percent.

Major capital asset events during the current fiscal year included the following:

- \$57,785 – Purchase of furniture and equipment

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT'S CAPITAL ASSETS
(net of depreciation)

	Governmental Activities					
	2016		2015		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
Land and Improvements	\$ 122,752	1	\$ 122,752	1	\$ -	-
Buildings and Improvements	16,796,880	90	17,499,492	89	(702,612)	(4)
Furniture and Equipment	1,744,470	9	1,892,890	10	(148,420)	(8)
Totals	\$ 18,664,102	100	\$ 19,515,134	100	\$ (851,032)	

Additional information on the District's capital assets can be found in notes to the financial statements as noted in the table of contents of this report.

Commitments. At the end of the current fiscal year, the District had no commitments outstanding.

Long-term liabilities. At year-end, the District had the following long-term liabilities:

HEMPSTEAD INDEPENDENT SCHOOL DISTRICT'S LONG-TERM LIABILITIES OUTSTANDING

	Governmental Activities					
	2016		2015		Increase (Decrease)	
	Amount	%	Amount	%	Amount	%
General Obligation Bonds (Net)	\$ 15,783,283	79	\$ 16,387,719	83	\$ (604,436)	(4)
Notes Payable (Net)	1,444,009	7	1,880,524	10	(436,515)	(23)
Net Pension Liability	2,844,719	14	1,180,670	6	1,664,049	141
Workers' Compensation	69,631	-	140,691	1	(71,060)	(51)
Compensated Absences	71,930	-	-	-	71,930	100
Totals	\$ 20,213,572	100	\$ 19,589,604	100	\$ 623,968	

The District's bonded debt decreased by \$604,436 during the current fiscal year primarily due to scheduled debt payments and refunding of bonds to decrease the future debt requirements.

The District's general obligation debt is backed by the full faith and credit of the District and is further guaranteed by the Texas Permanent School Fund Guarantee Program.

Pension expense increased primarily due to 1) the actual earnings were less than projected, 2) changes in proportion and differences between District contributions and proportionate share of contributions, and 3) pension costs.

Additional information on the District's long-term liabilities can be found in the notes to the financial statements as indicated in the table of contents of this report.

Economic Factors and Next Year's Budgets and Rates

- Current enrollment totals 1,626 students, which is a decrease from 1,666 a year ago.
- District staff totals 249 employees, which consist of 120 teachers and 33 teachers' aides and secretaries.
- The District maintains three campuses for instruction.
- The unemployment rate for the County is currently 5.3 percent, which is the same as a year ago. This compares unfavorably to the state's average unemployment rate of 4.4 percent.
- Property values of the District are expected to increase for the 2016-2017 fiscal year.
- A maintenance and operations tax rate of \$1.17 and a debt service tax rate of \$.21, a total rate of \$1.38 was adopted for 2016-2017. Preceding year rates were \$1.17, \$.21 and \$1.38, respectively.

All of these factors were considered in preparing the District's budget for the 2016 fiscal year.

During the current fiscal year, unassigned fund balance in the general fund increased to \$3,567,987. The District plans to utilize unassigned fund balance to fund current period expenditures prior to collecting the current year tax levy.

Requests for Information

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Business Manager, Hempstead Independent School District, 1440 13th Street, Hempstead, Texas, 77445.

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BASIC FINANCIAL STATEMENTS

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2016**

EXHIBIT A-1

1

Data Control Codes		Primary Government Governmental Activities
ASSETS		
1110	<i>Cash and Cash Equivalents</i>	\$ 2,068,678
1120	<i>Current Investments</i>	885,488
1220	<i>Property Taxes Receivable</i>	1,003,062
1230	<i>Allowances for Uncollectible Taxes</i>	(50,000)
1240	<i>Due from Other Governments</i>	1,261,888
1290	<i>Other Receivables</i>	92,381
1300	<i>Inventories</i>	7,415
1490	<i>Other Current Assets</i>	95,458
	Capital Assets:	
1510	<i>Land and Improvements</i>	122,752
1520	<i>Buildings and Improvements (Net)</i>	16,796,880
1530	<i>Furniture and Equipment (Net)</i>	1,744,470
1000	Total Assets	<u>24,028,472</u>
TOTAL DEFERRED OUTFLOWS OF RESOURCES		
1705	<i>Deferred Outflows - Pension</i>	1,854,578
1710	<i>Deferred Charge on Refunding</i>	256,715
1700	Total Deferred Outflows of Resources	<u>2,111,293</u>
LIABILITIES		
2110	<i>Accounts Payable</i>	176,999
2140	<i>Interest Payable</i>	45,924
2150	<i>Payroll Deductions and Withholdings</i>	99,067
2160	<i>Accrued Wages Payable</i>	487,036
2300	<i>Unearned Revenue</i>	3,051
	Noncurrent Liabilities:	
2501	<i>Due within One Year</i>	1,535,208
2502	<i>Due in More Than One Year</i>	15,833,645
2540	<i>Net Pension Liabilities</i>	2,844,719
2000	Total Liabilities	<u>21,025,649</u>
TOTAL DEFERRED INFLOWS OF RESOURCES		
2605	<i>Deferred Inflows - Pension</i>	482,293
2600	Total Deferred Inflows of Resources	<u>482,293</u>
NET POSITION		
3200	<i>Net Investment in Capital Assets</i>	1,890,009
3820	<i>Restricted for Grants</i>	1,440
3900	<i>Unrestricted</i>	2,740,374
3000	Total Net Position	\$ <u>4,631,823</u>

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

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016**

EXHIBIT B-1

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position Governmental Activities
			Charges for Services			
	Primary Government:					
	Governmental Activities:					
0011	<i>Instruction</i>	\$ 8,763,884	\$ 3,500	\$ 1,095,472	\$ (7,664,912)	
0012	<i>Intructional Resources and Media Services</i>	189,961	-	9,899	(180,062)	
0013	<i>Curriculum and Staff Development</i>	577,157	-	432,313	(144,844)	
0021	<i>Instructional Leadership</i>	279,413	-	26,300	(253,113)	
0023	<i>School Leadership</i>	1,070,309	-	91,458	(978,851)	
0031	<i>Guidance, Counseling, and Evaluation Services</i>	513,356	-	65,832	(447,524)	
0032	<i>Social Work Services</i>	7,993	-	-	(7,993)	
0033	<i>Health Services</i>	107,252	-	9,235	(98,017)	
0034	<i>Student Transportation</i>	629,995	-	33,662	(596,333)	
0035	<i>Food Service</i>	951,997	65,363	787,396	(99,238)	
0036	<i>Extracurricular Activities</i>	841,689	190,106	26,629	(624,954)	
0041	<i>General Administration</i>	1,073,457	-	68,774	(1,004,683)	
0051	<i>Plant Maintenance and Operations</i>	1,651,723	1,550	56,807	(1,593,366)	
0052	<i>Security and Monitoring Services</i>	239,345	-	15,603	(223,742)	
0053	<i>Data Processing Services</i>	913,163	-	19,868	(893,295)	
0061	<i>Community Services</i>	12,956	10,356	10,618	8,018	
0072	<i>Interest on Long-term Debt</i>	575,614	-	-	(575,614)	
0073	<i>Issuance Costs and Fees</i>	141,378	-	-	(141,378)	
0099	<i>Other Intergovernmental Charges</i>	106,724	-	-	(106,724)	
TG	Total Governmental Activities	<u>18,647,366</u>	<u>270,875</u>	<u>2,749,866</u>	<u>(15,626,625)</u>	
TP	Total Primary Government	<u>\$ 18,647,366</u>	<u>\$ 270,875</u>	<u>\$ 2,749,866</u>	<u>(15,626,625)</u>	
	General Revenues:					
MT	<i>Property Taxes, Levied for General Purposes</i>				5,856,222	
DT	<i>Property Taxes, Levied for Debt Services</i>				1,055,378	
GC	<i>Grants and Contributions Not Restricted to Specific Programs</i>				9,566,103	
IE	<i>Investment Earnings</i>				43,729	
MI	<i>Miscellaneous</i>				37,665	
TR	Total General Revenues				<u>16,559,097</u>	
CN	Change in Net Position				932,472	
NB	Net Position - Beginning				<u>3,699,351</u>	
NE	Net Position - Ending				<u>\$ 4,631,823</u>	

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

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2016**

Data Control Codes	199	599
ASSETS	General Fund	Debt Service Fund
1110 <i>Cash and Cash Equivalents</i>	\$ 1,978,489	\$ 56,029
1120 <i>Current Investments</i>	885,488	-
1220 <i>Property Taxes Receivable</i>	843,187	159,875
1230 <i>Allowance for Uncollectible Taxes</i>	(42,000)	(8,000)
1240 <i>Due from Other Governments</i>	710,334	31,472
1260 <i>Due from Other Funds</i>	645,464	-
1290 <i>Other Receivables</i>	68,381	-
1300 <i>Inventories</i>	-	-
1490 <i>Other Current Assets</i>	-	-
1000 Total Assets	<u>5,089,343</u>	<u>239,376</u>
1000a Total Assets and Deferred Outflows of Resources	<u>\$ 5,089,343</u>	<u>\$ 239,376</u>
LIABILITIES		
2110 <i>Accounts Payable</i>	\$ 150,826	\$ -
2150 <i>Payroll Deductions and Withholdings</i>	99,067	-
2160 <i>Accrued Wages Payable</i>	470,276	-
2170 <i>Due to Other Funds</i>	-	44,143
2300 <i>Unearned Revenue</i>	-	-
2000 Total Liabilities	<u>720,169</u>	<u>44,143</u>
DEFERRED INFLOWS OF RESOURCES		
2600 <i>Unavailable Revenue - Property Taxes</i>	<u>801,187</u>	<u>151,875</u>
Total Deferred Inflows of Resources	<u>801,187</u>	<u>151,875</u>
FUND BALANCES		
3450 <i>Restricted - Grant Funds</i>	-	-
3480 <i>Restricted - Debt Service</i>	-	43,358
3545 <i>Committed - Other</i>	-	-
3600 <i>Unassigned</i>	<u>3,567,987</u>	<u>-</u>
3000 Total Fund Balances	<u>3,567,987</u>	<u>43,358</u>
4000 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 5,089,343</u>	<u>\$ 239,376</u>

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

EXHIBIT C-1

211	Total Nonmajor Funds	98 Total Governmental Funds
<u>ESEA Title I</u>		
\$ -	\$ 34,160	\$ 2,068,678
-	-	885,488
-	-	1,003,062
257,296	262,786	(50,000)
-	-	1,261,888
-	24,000	645,464
-	7,415	92,381
-	95,458	7,415
<u>257,296</u>	<u>423,819</u>	<u>95,458</u>
		<u>6,009,834</u>
\$ <u>257,296</u>	\$ <u>423,819</u>	\$ <u>6,009,834</u>
\$ -	\$ 26,173	\$ 176,999
-	-	99,067
4,058	12,702	487,036
253,238	348,083	645,464
-	3,051	3,051
<u>257,296</u>	<u>390,009</u>	<u>1,411,617</u>
-	-	<u>953,062</u>
		<u>953,062</u>
-	1,440	1,440
-	-	43,358
-	32,370	32,370
-	-	3,567,987
<u>-</u>	<u>33,810</u>	<u>3,645,155</u>
\$ <u>257,296</u>	\$ <u>423,819</u>	\$ <u>6,009,834</u>

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

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**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION
AUGUST 31, 2016**

EXHIBIT C-1R

Total Fund Balances - Governmental Funds (Exhibit C-1) \$ 3,645,155

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The governmental capital assets at year-end consist of:

Governmental Capital Assets Costs	\$ 31,394,466	
Accumulated Depreciation of Governmental Capital Assets	<u>(12,730,364)</u>	18,664,102

Property taxes receivable, which will be collected subsequent to year-end, are not available soon enough to pay expenditures and, therefore, are deferred in the funds. 953,062

Long-term liabilities, including bonds payable, note payable, workers compensation, compensated absences, and net pension liability, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Liabilities at year-end related to such items consist of:

Bonds Payable, at Original Par	\$ (14,544,480)	
Premium on Bonds Payable	(1,042,319)	
Accreted Interest on Capital Appreciation Bonds	(196,484)	
Accrued Interest on the Bonds	(20,385)	
Notes Payable	(1,444,009)	
Accrued Interest on the Notes Payable	(25,539)	
Workers' Compensation	(69,631)	
Compensated Absences	(71,930)	
Net Pension Liability	<u>(2,844,719)</u>	(20,259,496)

Deferred charge on refunding is reported as deferred outflow in the statement of net position and is not reported in the funds as is not a current financial resource available to pay for current expenditures. 256,715

Deferred outflows for pension represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expenses/expenditures) until then. 1,854,578

Deferred inflows for pension represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. (482,293)

Total Net Position - Governmental Activities (Exhibit A-1) \$ 4,631,823

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

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016**

Data Control Codes	199	599
	General Fund	Debt Service Fund
REVENUES		
5700 <i>Local and Intermediate Sources</i>	\$ 5,830,096	\$ 1,064,202
5800 <i>State Program Revenues</i>	9,645,889	207,055
5900 <i>Federal Program Revenues</i>	398,610	-
5020 Total Revenues	<u>15,874,595</u>	<u>1,271,257</u>
EXPENDITURES		
Current:		
0011 <i>Instruction</i>	7,491,765	-
0012 <i>Instructional Resources and Media Services</i>	149,247	-
0013 <i>Curriculum and Staff Development</i>	156,981	-
0021 <i>Instructional Leadership</i>	252,636	-
0023 <i>School Leadership</i>	975,280	-
0031 <i>Guidance, Counseling, and Evaluation Services</i>	463,059	-
0033 <i>Health Services</i>	108,482	-
0034 <i>Student Transportation</i>	574,272	-
0035 <i>Food Service</i>	-	-
0036 <i>Extracurricular Activities</i>	520,519	-
0041 <i>General Administration</i>	990,615	-
0051 <i>Plant Maintenance and Operations</i>	1,581,280	-
0052 <i>Security and Monitoring Services</i>	233,221	-
0053 <i>Data Processing Services</i>	904,418	-
0061 <i>Community Services</i>	2,338	-
Debt Service:		
0071 <i>Principal on Long-term Debt</i>	436,515	965,000
0072 <i>Interest on Long-term Debt</i>	70,401	528,418
0073 <i>Issuance Costs and Fees</i>	-	141,378
Intergovernmental:		
0099 <i>Other Intergovernmental Charges</i>	106,724	-
6030 Total Expenditures	<u>15,017,753</u>	<u>1,634,796</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>856,842</u>	<u>(363,539)</u>
OTHER FINANCING SOURCES (USES)		
7901 <i>Refunding Bonds Issued</i>	-	7,675,000
7915 <i>Transfers In</i>	-	-
7916 <i>Premium or Discount on Issuance of Bonds</i>	-	495,019
8911 <i>Transfers Out</i>	(28,144)	-
8948 <i>Payment to Refunded Bonds Escrow Agent</i>	-	(8,024,361)
7080 Total Other Financing Sources (Uses)	<u>(28,144)</u>	<u>145,658</u>
1200 Net Change in Fund Balances	828,698	(217,881)
0100 Fund Balances - Beginning	2,739,289	261,239
3000 Fund Balances - Ending	<u>\$ 3,567,987</u>	<u>\$ 43,358</u>

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

EXHIBIT C-2

211	Total Nonmajor Funds	98 Total Governmental Funds
<u>ESEATitle I</u>	<u>Funds</u>	<u>Funds</u>
\$ -	\$ 218,376	\$ 7,112,674
-	147,764	10,000,708
<u>447,915</u>	<u>1,125,364</u>	<u>1,971,889</u>
<u>447,915</u>	<u>1,491,504</u>	<u>19,085,271</u>
94,333	383,787	7,969,885
-	-	149,247
342,964	53,468	553,413
-	7,037	259,673
-	11,386	986,666
-	29,494	492,553
-	-	108,482
-	-	574,272
-	852,380	852,380
-	185,783	706,302
-	-	990,615
-	-	1,581,280
-	121	233,342
-	-	904,418
10,618	-	12,956
-	-	1,401,515
-	-	598,819
-	-	141,378
-	-	106,724
<u>447,915</u>	<u>1,523,456</u>	<u>18,623,920</u>
-	(31,952)	461,351
-	-	7,675,000
-	28,144	28,144
-	-	495,019
-	-	(28,144)
-	-	(8,024,361)
<u>-</u>	<u>28,144</u>	<u>145,658</u>
-	(3,808)	607,009
-	37,618	3,038,146
<u>\$ -</u>	<u>\$ 33,810</u>	<u>\$ 3,645,155</u>

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

**HEMPSTEAD 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**

EXHIBIT C-3

Total Net Changes in Fund Balances - Governmental Funds (Exhibit C-2) \$ 607,009

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense.

Capital Assets <i>increased</i>	\$ 73,759	
Depreciation Expense	<u>(924,791)</u>	(851,032)

Because some property taxes will not be collected for several months after the District's fiscal year end, they are not considered "available" revenues and are deferred in the governmental funds. Deferred tax revenues increased (decreased) by this amount this year. 162,133

Issuance of bonds or notes payable provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position.

Par Value	\$ (7,675,000)	
(Premium) Discount	<u>(495,019)</u>	(8,170,019)

Repayment of bond and note principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.

Bond Payable Principal payment	\$ 965,000	
Notes Payable Principal payment	<u>436,515</u>	1,401,515

Payment to escrow agent to refund bonds and notes from refunding proceeds. 8,024,361

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due, and includes amortization of related long-term debt accounts. The (increase) decrease in interest expense reported in the statement of activities consist of the following:

Accrued Interest on Notes Payable (<i>increased</i>) <i>decreased</i>	\$ (25,539)	
Accrued Interest on Current Interest Bonds Payable (<i>increased</i>) <i>decreased</i>	6,935	
Interest Accreted on the Capital Appreciation Bonds	(12,465)	
Amortization of Bond Premium and Discount	81,920	
Amortization of Deferred Charge on Refunding	<u>(27,646)</u>	23,205

The net change in net pension liability, deferred outflows, and deferred inflows is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. The net change consists of the following:

Deferred Outflows Increased (Decreased)	\$ 1,521,342	
Deferred Inflows (Increased) Decreased	(121,123)	
Net Pension Liability (Increased) Decreased	<u>(1,664,049)</u>	(263,830)

The increase in compensated absences is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. (71,930)

The decrease in workers' compensation is reported in the statement of activities but does not require the use of current financial resources and, therefore, is not reported as expenditures in the governmental funds. 71,060

Change in Net Position for Governmental Activities (Exhibit B-1) \$ 932,472

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

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2016**

EXHIBIT E-1

<u>Data Control Codes</u>		<u>829 Private-Purpose Trust Fund Scholarship Funds</u>	<u>865 Agency Fund Student Activity</u>
	ASSETS		
1110	<i>Cash and Cash Equivalents</i>	\$ 4,232	\$ 49,637
1120	<i>Current Investments</i>	6,146	-
1000	Total Assets	<u>10,378</u>	<u>\$ 49,637</u>
	LIABILITIES		
2110	<i>Accounts Payable</i>	4,927	\$ -
2190	<i>Due to Student Groups</i>	-	49,637
2000	Total Liabilities	<u>4,927</u>	<u>\$ 49,637</u>
	NET POSITION		
3800	<i>Held in Trust</i>	<u>5,451</u>	
3000	Total Net Position	<u>\$ 5,451</u>	

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

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN NET POSITION
FIDUCIARY FUND
FOR THE YEAR ENDED AUGUST 31, 2016**

EXHIBIT E-2

<u>Data Control Codes</u>	<u>829 Private-Purpose Trust Fund Scholarship Funds</u>
ADDITIONS	
5700 Increase in Fair Value of Investments	\$ 16
Total Additions	<u>16</u>
DEDUCTIONS	
6400 Scholarship Awards	<u>-</u>
Total Deductions	<u>-</u>
Change in Net Position	16
Net Position-Beginning of the Year	<u>5,435</u>
Net Position-End of the Year	\$ <u>5,451</u>

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

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

A. Description of Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government (District). All fiduciary activities are reported only in the fund financial statements. *Governmental activities* normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions.

B. Reporting Entity

The Hempstead Independent School District (District) is governed by a seven-member board of trustees (Board), which has governance responsibilities over all activities related to public, elementary and secondary, education within the District. Members of the Board are elected by the public; have authority to make decisions; appoint management and significantly influence operations; and have primary accountability for fiscal matters; the District is not included in any other governmental reporting entity. The accompanying financial statements present the District.

C. Basis of Presentation – Government-wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds. Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the District's funds, including its fiduciary funds. Separate statements for each fund category—governmental and fiduciary—are presented. 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. Major individual governmental funds are reported as separate columns in the fund financial statements.

The District reports the following major governmental funds:

The *general fund* is the District's primary operating fund. It accounts for all financial resources of the District, except those accounted for in another fund.

The *debt service fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal and interest on long-term obligations of governmental funds.

The ESEA Title I fund is used to account on a project basis for funds allocated to the District to enable schools to provide opportunities for children served to acquire the knowledge and skills contained in the challenging State content standards and to meet the challenging State performance standards developed for all children.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Basis of Presentation – Fund Financial Statements - Continued

Additionally, the District reports the following fund types:

The *private-purpose trust fund* is used to account for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. Primarily, the funds received in trust are for scholarships that are to be awarded to current and former students for post-secondary education purposes.

The *agency fund* accounts for assets held by the District for student organizations. The fund is custodial in nature (assets equal liabilities) and does not involve measurement or results of operations.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental funds) are eliminated so that only the amount due from/to agency is included in the governmental activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds are eliminated in the governmental activities.

E. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

E. Measurement Focus and Basis of Accounting - Continued

required under accrual accounting. However, debt service expenditures, as well as expenditures related to notes payable, compensated absences, and claims and judgements, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Interest associated with the current fiscal period is considered to be susceptible to accrual and has been recognized as revenues in the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items, including property taxes, are considered to be measurable and available only when cash is received by the District.

The fiduciary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*.

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand and, bank demand or time deposits with original maturities of three months or less from the date of acquisition.

2. Deposit and Investments

Investments for the District, except for certain investment pools, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost or net asset value; i.e. fair value.

3. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The cost of such inventories is recorded as expenditures/expenses when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance – Continued

4. Capital Assets

Capital assets, which include land and improvements, construction in progress, buildings and improvements, and furniture and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. The District's infrastructure includes parking lots and sidewalks associated with various buildings. The cost of the infrastructure was initially capitalized with the building cost and is being depreciated over the same useful life as the building. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities), the District chose to include all such items regardless of their acquisition date or amount. The District was able to estimate the historical cost for the initial reporting of these assets through back trending (i.e., estimating the current replacement cost of the infrastructure to be capitalized and using an appropriate price-level index to deflate the cost to the acquisition year or estimated acquisition year). As the District constructs or acquires additional capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or increase its estimated useful life. Donated capital assets are recorded at their estimated fair value at the date of donation.

Land and improvements and construction in progress are not depreciated. The buildings and improvements and furniture and equipment of the District are depreciated using the straight line method over the following estimated useful lives:

<u>Capital Asset Classes</u>	<u>Lives</u>
Buildings and Improvements	5-40
Furniture and Equipment	5-15

5. Deferred Outflows/Inflows of Resources

Deferred outflows of resources represents a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense/expenditures) until then. Deferred inflows of resources represents an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance - Continued

5. Deferred Outflows/Inflows of Resources - Continued

The components of the deferred outflows of resources and deferred inflows of resources in the government-wide and fund level financial statements are as follows:

	Statement of Net Position	Balance Sheet - Governmental Funds	
	Governmental Activities	General Fund	Debt Service Fund
Deferred Outflows of Resources:			
Deferred Outflows from Pension Activities	\$ 1,608,563	\$ -	\$ -
Deferred Contributions after the Measurement Date	246,015		
Deferred Charge on Refunding	256,715	-	-
Total Deferred Outflows of Resources	\$ 2,111,293	\$ -	\$ -
Deferred Inflows of Resources:			
Deferred Inflows from Pension Activities	\$ 482,293	\$ -	\$ -
Unavailable Property Taxes	-	801,187	151,875
Total Deferred Inflows of Resources	\$ 482,293	\$ 801,187	\$ 151,875

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension activities are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan, except for projected and actual earnings differences on investments which are amortized on a closed basis over a 5-year period.
- District contributions after the measurement date are recognized in the subsequent year.
- Deferred charge/gain on refunding is amortized over the shorter of the life of the refunded or refunding debt.
- Property taxes are recognized in the period the amount becomes available.

6. 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 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.

7. Fund Balance Flow Assumptions

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

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance – Continued

7. Fund Balance Flow Assumptions - Continued

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.

8. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District's highest level of decision-making authority. The board of trustees (Board) is the highest level of decision-making authority for the District that can, by board action or adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by board action or the resolution remains in place until a similar action is taken (the board action or adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board has by policy authorized the superintendent and business manager to assign fund balance. The Board may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

9. Pension

In government-wide financial statements, pensions are required to be recognized and disclosed using the accrual basis of accounting (see Note 4.C. and the RSI section immediately following the Notes to the Financial Statements), regardless of the amount recognized as pension expenditures on the modified accrual basis of accounting. The District recognizes a net pension liability for the qualified pension plan in which it participates, which represents the excess of the total pension liability over the fiduciary net position of the qualified pension plan, or the District's proportionate share thereof in the case of a cost-sharing multiple-employer plan, measured as of the respective pensions' fiscal year-end. Changes in the net pension liability during the period are recorded as pension expense, or as deferred

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance – Continued

9. Pension - Continued

inflows of resources or deferred outflows of resources depending on the nature of the change, in the period incurred. Those changes in net pension liability that are recorded as deferred inflows of resources or deferred outflows of resources that arise from changes in actuarial assumptions or other inputs and differences between expected or actual experience are amortized over the weighted average remaining service life of all participants in the respective qualified pension plan and recorded as a component of pension expense beginning with the period in which they are incurred. Projected earnings on qualified pension plan investments are recognized as a component of pension expense. Differences between projected and actual investment earnings are reported as deferred inflows of resources or deferred outflows of resources and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

G. Revenues and Expenditures/Expenses

1. Program Revenues

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property Taxes

Property taxes for the current calendar year are levied on approximately October 1 of each year and are payable by January 31 of the following year. Property tax receivables are recorded as of the date levied. Unpaid taxes become delinquent on February 1 and a tax lien on real property is created as of July 1 of each year.

3. Compensated Absences

The District's policy permits employees to accumulate earned by unused local and state leave days. Payments for unused local days, to a maximum of 5 days, will be paid, at 100% of the employee's current daily rate, upon retirement. Payments for unused state days will be paid, at 30% of the employee's current daily rate, upon retirement. Retirement is in accordance with guidelines established by the Teacher Retirement System of Texas. All days are accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have met the District's retirement and State's retirement eligibility requirements.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

G. Revenues and Expenditures/Expenses – Continued

4. Use of Estimates

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

5. Data Control Codes

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

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, *National School Breakfast and Lunch Program* special revenue fund, and debt service fund. All other governmental funds adopt project-length budgets. All annual appropriations lapse at fiscal year end. The following procedures are followed in establishing the budgetary data reflected in the financial statements.

1. Prior to August 31 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.

The appropriated budget is prepared by fund, function, and campus/department. The District's campus/department heads may make transfers of appropriations within a department. Transfers of appropriations between campus/departments require the approval of the District's Management. Transfers of appropriations between functions require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level. The District amended general fund budget throughout the year between functions and total appropriations. Differences between the original and final budget of the general fund were to increase state revenues and expenditures, primarily instruction, for the increase in average daily attendance.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY - CONTINUED

B. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restricted, committed, or assigned fund balances as appropriate. The encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. As of August 31, 2016, the District did not have any outstanding encumbrances.

NOTE 3. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

Investments. The District's investment policy is in accordance with the Public Funds Investment Act, the Public Funds Collateral Act, and federal and state laws. State law and District policy limits credit risk by allowing investing in 1) Obligations of the United States or its agencies which are backed by the full faith and credit of the United States, obligations of the State of Texas or its agencies, counties, cities and other political subdivisions of any state rated as to investment quality by a nationally recognized statistical rating organization (NRSRO) not less than A or its equivalent; 2) Certificates of deposit issued by a depository located in Texas which is insured by the FDIC or purchased through a broker who has an office located in Texas; 3) Repurchase agreements secured by obligations of the United States or its agencies not to exceed 90 days to maturity from the date of purchase; 4) Bankers acceptances with a stated maturity of 270 days or fewer which are eligible for collateral for borrowing from a Federal Reserve Bank; 5) No-load money market mutual funds which shall be registered with the Securities and Exchange Commission which have an average weighted maturity of less than two years, investments comply with the Public Funds Investment Act and are continuously rated not less than AAA by at least one NRSRO; 6) A guaranteed investment contract (for bond proceeds only) which meets the criteria and eligibility requirements established by the Public Funds Investment Act; 7) Public funds investment pools which meets the requirements of the Public Funds Investment Act; 8) Commercial paper is an authorized investment if it has stated maturity of 271 days or fewer from the date of its issuance; and is rated not less than A-1 or P-1 or an equivalent rating by at least: two nationally recognized credit rating agencies; or one nationally recognized agency and is fully secured by an irrevocable letter of credit issued by a bank organized and existing under the laws of the United States or any state; 9) Securities lending program permitted by Government Code 2256.0015.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 3. DETAILED NOTES ON ALL FUNDS - CONTINUED

A. Deposits and Investments - Continued

The District's governmental and fiduciary fund investment balances and the weighted average maturity of such investments are as follows:

	<u>August 31, 2016</u>	<u>Percent of Total Investments</u>	<u>Weighted Average Maturity (Days)</u>	<u>Credit Risk</u>
Investments Measured at Cost				
Non-negotiable Certificate of Deposit	\$ 6,146	1%	365	Not Rated*
Investments Measured at Amortized Cost				
Investment Pools				
Lone Star Overnight	28,548	3%	39	AAAm
Investments Measured at Net Asset Value (NAV), fair value:				
Investment Pools				
TexSTAR	856,940	96%	23	AAA
Total	\$ 891,634	100%		
Portfolio Weighted Average Maturity			92	

*Certificates are insured or collateralized

Certificates of Deposit that are non-negotiable are reported at cost.

Investment Pools are measured at amortized cost or net asset value and are exempt for fair value reporting.

The Lone Star investment pool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, investment pools must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity and diversification requirements within the investment pool. The investment pools transact at a net asset value of \$1.00 per share, have weighted average maturity of 60 days or less and weighted average life of 120 days or less, investments held are highly rated by nationally recognized statistical rating organization, have no more than 5% of portfolio with one issuer (excluding US government securities), and can meet reasonably foreseeable redemptions. Lone Star has a redemption notice period of one day and no maximum transaction amounts. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pools' liquidity.

The TexSTAR investment pool is an external investment pool measured at net asset value. TexSTAR's strategy is to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. The District has no unfunded commitments related to the investment pool. TexSTAR has a redemption notice period of one day and may redeem daily. The investment pool's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities market, general banking moratorium or national or state emergency that affects the pool's liquidity.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 3. DETAILED NOTES ON ALL FUNDS - CONTINUED

A. Deposits and Investments - Continued

Credit risk. For fiscal year 2016, the District invested in TexSTAR and Lone Star Investment Pools. Lone Star is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Public, LLC., formerly the Texas Association of School Boards Financial Services. TexSTAR is duly chartered by the State of Texas Interlocal Cooperation Act and is administered by First Southwest Asset Management, Inc. and JPMorgan Chase. As of August 31, 2016, the District's investments were rated as noted on the table above.

Interest rate risk. Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The District monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the District reduces its exposure to declines in fair values by limiting the weighted average maturity of any internally created pool to no more than 180 days, and any other individual investment not to exceed one year from the time of purchase, unless specifically authorized by the Board of Trustees.

Concentration of credit risk. The District's investment policy does not limit an investment in any one issuer.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of August 31, 2016, District's bank balance of \$2,431,992 was not exposed to custodial credit risk because it was insured and collateralized with securities held by the District's agent and in the District's name.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District is not exposed to custodial risk due to the investments are insured or registered in the District's name or the investments are held by the District or its agent.

B. Receivables

Tax revenues of the general and debt service fund are reported net of uncollectible amounts. Total change in uncollectible amounts increasing revenues of the current period were as follows:

Change in Uncollectibles Related to General Fund Property Taxes	\$ 175,714
Change in Uncollectibles Related to Debt Service Property Taxes	37,929
Total Uncollectibles of the Current Fiscal Year	<u>\$ 213,643</u>

Approximately 64% of the outstanding balance of property taxes receivable is not anticipated to be collected within the next year.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 3. DETAILED NOTES ON ALL FUNDS - CONTINUED

C. Interfund Receivables, Payables, and Transfers

1. Receivables/Payables

The composition of interfund receivable/payable balances as of August 31, 2016, is as follows:

Fund	Interfund Receivables	Interfund Payables
General Fund	\$ 645,464	\$ -
Debt Service Fund	-	44,143
ESEA Title I	-	253,238
Other Governmental Funds	-	348,083
	\$ 645,464	\$ 645,464

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

2. Transfers

Interfund transfers are defined as “flows of assets without equivalent flow of assets in return and without a requirement for repayment.” Transfers are the use of funds collected in one fund and are transferred to finance various programs accounted for in other funds. The following is a summary of the District’s interfund transfers for the year ended August 31, 2016.

Transfer Out	Transfer In	Amount
General Fund	Nonmajor Governmental Funds	\$ 28,144
Total		\$ 28,144

The transfers from the general fund to nonmajor governmental funds were made to enhance certain supplemental operations that are accounted for in the *National School Breakfast and Lunch Program* special revenue fund.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 3. DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Capital Assets

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements and Transfers</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital Assets, not being Depreciated:				
Land and Improvements	\$ 122,752	\$ -	\$ -	\$ 122,752
Total Capital Assets, not being Depreciated	122,752	-	-	122,752
Capital Assets, being Depreciated:				
Buildings and Improvements	27,506,628	15,974	-	27,522,602
Furniture and Equipment	3,691,327	57,785	-	3,749,112
Total Capital Assets, being Depreciated	31,197,955	73,759	-	31,271,714
Less Accumulated Depreciation for:				
Buildings and Improvements	(10,007,136)	(718,586)	-	(10,725,722)
Furniture and Equipment	(1,798,437)	(206,205)	-	(2,004,642)
Total Accumulated Depreciation	(11,805,573)	(924,791)	-	(12,730,364)
Total Capital Assets, being Depreciated, net	19,392,382	(851,032)	-	18,541,350
Governmental Activities Capital Assets, net	\$ 19,515,134	\$ (851,032)	\$ -	\$ 18,664,102

Depreciation expense was charged to functions/programs of the District as follows:

Governmental Activities:	
11 Instruction	\$ 471,880
12 Instructional Resources and Media Services	37,778
13 Curriculum and Staff Development	1,024
23 School Leadership	40,479
33 Health Services	1,688
34 Student Transportation	43,005
35 Food Service	106,354
36 Extracurricular Activities	118,065
41 General Administration	39,029
51 Plant Maintenance and Operations	55,291
52 Security and Monitoring Services	4,939
53 Data Processing Services	5,259
Total Depreciation Expense-Governmental Activities	\$ 924,791

E. Long-term Liabilities

The District's long-term liabilities consist of bond indebtedness, notes payable, compensated absences, workers' compensation, and net pension liability. The current requirements for general obligation bonds principal and interest expenditures are accounted for in the debt service fund. Other long-term liabilities are generally liquidated with resources of the general fund.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 3. DETAILED NOTES ON ALL FUNDS - CONTINUED

E. Long-term Liabilities - Continued

Changes in Long-term Liabilities

Long-term liability activity for the year ended August 31, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions and (Provision Adjustment)</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable:					
General Obligation Bond	\$ 15,574,480	\$ 7,675,000	\$ (8,705,000)	\$ 14,544,480	\$ 995,000
Deferred Amounts:					
For Issuance Premium (CIB's)	629,220	495,019	(81,920)	1,042,319	-
For Accreted Interest (CAB's)	184,019	12,465	-	196,484	-
Total Bonds Payable, net	16,387,719	8,182,484	(8,786,920)	15,783,283	995,000
Notes Payable	1,880,524	-	(436,515)	1,444,009	453,009
Workers' Compensation	140,691	-	(71,060)	69,631	69,631
Compensated Absences	-	71,930	-	71,930	17,568
Net Pension Liability	1,180,670	2,113,733	(449,684)	2,844,719	-
Governmental Activities Long-term Liabilities	\$ 19,589,604	\$ 10,368,147	\$ (9,744,179)	\$ 20,213,572	\$ 1,535,208

General Obligation Bonds

The District issues general obligation bonds to provide funds for the construction and equipment of school buildings (BLDG) and to refund general obligation bonds (REF). General obligation bonds are direct obligations and pledge the full faith and credit of the District. These bonds are issued as 8-30 year current year or capital appreciation bonds (CAB) with various amounts of principal maturing each year. The following is a summary of changes in the general obligation bonds for the fiscal year:

<u>Series</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Maturity Date</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
2007 BLDG	4.0-5.0%	\$ 9,300,000	2037	\$ 8,170,000	\$ -	\$ (7,950,000)	\$ 220,000
2007 BLDG CAB	4.35%	99,480	2022	99,480	-	-	99,480
2013 REF	1.5-2.0%	3,110,000	2021	2,150,000	-	(340,000)	1,810,000
2015 REF	2.0-4.0%	5,155,000	2026	5,155,000	-	(395,000)	4,760,000
2016 REF	2.0-5.0%	7,675,000	2037	-	7,675,000	(20,000)	7,655,000
Totals				\$ 15,574,480	\$ 7,675,000	\$ (8,705,000)	\$ 14,544,480

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 3. DETAILED NOTES ON ALL FUNDS - CONTINUED

E. Long-term Liabilities - Continued

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Year Ending August 31</u>	<u>Principal Value</u>	<u>Interest</u>	<u>Total Requirements</u>
2017	\$ 995,000	\$ 453,713	\$ 1,448,713
2018	1,015,000	422,288	1,437,288
2019	1,045,000	388,038	1,433,038
2020	1,080,000	357,063	1,437,063
2021	1,105,000	324,963	1,429,963
2022	764,480	565,033	1,329,513
2023	800,000	257,738	1,057,738
2024	835,000	221,913	1,056,913
2025	880,000	184,313	1,064,313
2026	930,000	150,063	1,080,063
2027	405,000	131,063	536,063
2028	415,000	122,863	537,863
2029	425,000	113,400	538,400
2030	435,000	101,563	536,563
2031	450,000	88,288	538,288
2032	460,000	75,213	535,213
2033	470,000	62,425	532,425
2034	490,000	49,225	539,225
2035	500,000	35,613	535,613
2036	515,000	21,656	536,656
2037	530,000	7,288	537,288
Totals	\$ <u>14,544,480</u>	\$ <u>4,133,722</u>	\$ <u>18,678,202</u>

As of August 31, 2016, the District did not have any authorized but unissued bonds.

In February 2016, the District issued \$7,675,000 of refunding bonds. The proceeds of the refunding bonds were used to legally defease \$7,740,000 of previously issued District bonds in order to lower its overall debt service requirements. The reacquisition price exceeded the net carrying value of the old debt by \$284,361. The District advance-refunded the bonds in order to reduce its future debt service payments by \$1,565,323 and to obtain an economic gain (differences between the present values of the debt service payments on the old and new debt) of \$1,220,908.

The District defeased certain outstanding bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and the liability for the defeased bonds are not included in the District's financial statements. At August 31, 2016, the following outstanding bonds are considered defeased:

2007 General Obligation Bonds (maturing 2037, callable February 15, 2017)	\$ <u>7,740,000</u>
Total	\$ <u>7,740,000</u>

Notes Payable

The District issues notes to provide funds for operations, equipment, and capital improvements. The maintenance tax notes are secured by the proceeds of a continuing direct annual ad valorem tax levied for maintenance and the remaining notes are secured by the related capital assets.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 3. DETAILED NOTES ON ALL FUNDS - CONTINUED

E. Long-term Liabilities - Continued

The following is a summary of changes in the notes payable during the fiscal year:

Description	Interest Rate	Original Issue	Maturity Date	Beginning Balance	Additions	Reductions	Ending Balance
Maintenance Tax Note, Series 2013A	2.99%	\$ 467,052	2017	\$ 282,318	\$ -	\$ (91,347)	\$ 190,971
Maintenance Tax Note, Series 2013B	2.79%	779,416	2023	627,492	-	(71,093)	556,399
Loan - Technology	3.29%	709,823	2016	307,903	-	(153,108)	154,795
Loan - Public Property	-	63,202	2016	32,978	-	(16,051)	16,927
Loan - Two vehicles	2.89%	39,516	2016	16,840	-	(6,535)	10,305
Loan-Energy Management System	5.46%	1,000,065	2021	612,993	-	(98,381)	514,612
Total Notes Payable				\$ 1,880,524	\$ -	\$ (436,515)	\$ 1,444,009

Annual debt service requirements to maturity of the notes payable are as follows:

Year Ending August 31	Principal Value	Interest	Total Requirements
2017	\$ 453,009	\$ 50,416	\$ 503,425
2018	281,581	37,338	318,919
2019	192,850	26,280	219,130
2020	201,405	17,725	219,130
2021	145,112	8,754	153,866
2022	83,856	4,744	88,600
2023	86,196	2,405	88,601
Totals	\$ 1,444,009	\$ 147,662	\$ 1,591,671

F. Fund Balance

Other committed fund balances include the following commitments of funds:

Nonmajor Governmental Fund - Special Revenue:

Campus Activity Funds	\$ 32,370
Total Other Committed Fund Balance	\$ 32,370

G. Revenues from Local and Intermediate Sources

During the current year, revenues from local and intermediate sources consisted of the following:

	General	Debt Service	Other Governmental Funds	Totals
Property Taxes	\$ 5,708,587	\$ 1,040,880	\$ -	\$ 6,749,467
Investment Income	19,970	23,322	437	43,729
Food Sales	-	-	65,363	65,363
Other	101,539	-	152,576	254,115
Totals	\$ 5,830,096	\$ 1,064,202	\$ 218,376	\$ 7,112,674

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 4. OTHER INFORMATION

A. Risk Management

Health Insurance

During the year ended August 31, 2016, employees of the District were covered by TRS-Active Care (the Plan) a statewide health coverage program for Texas public education employees, implemented by the Teacher Retirement System of Texas (TRS). The District paid premiums of \$225 per month, per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to the TRS. The legislature created the Plan for public school employee group health coverage in 2002-03, requiring all Districts with fewer than 500 employees to participate in the Plan.

Property and Liability

The District participates in the Texas Association of School Boards Risk Management Fund ("Fund") Property and Liability Program. The Fund was created to formulate, develop and administer a program of modified self-funding for the Fund's membership, obtain competitive costs for coverages and develop a comprehensive loss control program. The District pays an annual premium to the Fund for its coverages and transfers the risk to the Fund. In the event that the Fund was to discontinue operations, the member districts would be responsible for any eligible claims not funded by the pool. There were no significant reductions in insurance coverage from the prior year or settlements exceeding insurance coverage for each of the past three fiscal years.

Workers' Compensation

During the year ended August 31, 2016, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created by Texas Association of School Boards, Inc. and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members' injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2015, the Fund carries a discounted reserve of \$58,364,320 for future development on reported claims and claims that have been incurred but not yet reported. For the year-ended August 31, 2016, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions and reimbursable aggregate deductibles.

Prior to September 1, 2015, the District did not transfer its risk for workers' compensation claims and is liable for claims occurring prior to September 1, 2015. The liability estimation requires the estimate of loss development over an extended period of time. During the self-insurance period of time, numerous internal and external factors will affect the ultimate settlement value of claims. Due to the inherent uncertainty with regard to the impact of these factors, there can be no guarantee that actual losses will not vary,

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 4. OTHER INFORMATION

A. Risk Management - Continued

perhaps significantly, from the estimates. There were no significant reductions in insurance coverage from the prior year or settlements exceeding insurance coverage for each of the past three fiscal years. The following is summary of the changes in the balances of claims liabilities for workers' compensation for the year ended August 31:

	<u>Year Ended 8/31/2016</u>	<u>Year Ended 8/31/2015</u>
Unpaid Claims, Beginning of Fiscal Year	\$ 140,691	\$ 115,537
Incurred Claims (including IBNRs and changes in provisions)	(38,537)	600,051
Claim Payments	<u>(32,523)</u>	<u>(574,897)</u>
Unpaid Claims, End of Fiscal Year	<u>\$ 69,631</u>	<u>\$ 140,691</u>

The Fund engages the services of independent auditors to conduct a financial audit after the close of each year on August 31. The audit is approved by the Fund's Board Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2015, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

B. Litigation and Contingencies

The District is a defendant in a legal claim arising principally in its normal course of operations. Although the outcome of the lawsuit is not presently determinable, in the opinion of the District's counsel, the resolution of this matter will not have a material adverse effect on the District's financial position.

The District participates in a number of federal and state financial assistance programs. Although the District's grant programs have been audited in accordance with the provisions of the Single Audit Act through August 31, 2016, these programs are subject to financial and compliance audits by the grantor agencies. The District is also subject to audit by the TEA of the attendance data upon which payments from the agency are based. These audits could result in questioned costs or refunds to be paid back to the granting agencies.

C. Defined Benefit Pension Plan

Plan Description

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

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 4. OTHER INFORMATION - CONTINUED

C. Defined Benefit Pension Plan - Continued

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

Pension Plan Fiduciary Net Position

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

Benefits Provided

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

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.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 4. OTHER INFORMATION - CONTINUED

C. Defined Benefit Pension Plan - Continued

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for Plan fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for Plan fiscal years 2016 and 2017.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Member	\$ 7.2%	\$ 6.7%	\$ 6.4%
Non-Employer Contributing Entity (State)	6.8%	6.8%	6.8%
Employers/District	6.8%	6.8%	6.8%

The contribution amounts for the District's fiscal year 2016 are as follows:

District Contributions	\$ 246,015
Member Contributions	698,390
NECE On-behalf Contributions (State)	553,953

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 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.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 4. OTHER INFORMATION - CONTINUED

C. Defined Benefit Pension Plan - Continued

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

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

Actuarial Assumptions

The total pension liability in the August 31, 2015 actuarial valuation 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	8.00%
Long-term Expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases Including Inflation	3.50% to 9.50%
Payroll Growth Rate	2.50%
Benefit Changes During the Year	None
Ad Hoc Post-employment Benefit Changes	None

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

Discount Rate

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

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 4. OTHER INFORMATION - CONTINUED

C. Defined Benefit Pension Plan - Continued

geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

	<u>Target Allocation</u>	<u>Real Return Geometric Basis</u>	<u>Long-Term Expected Portfolio Real Rate of Return*</u>
Global Equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0.0%	1.8%	0.0%
Hedge Funds (Stable Value)	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real Return			
Global Inflation-Linked Bonds	3.0%	0.9%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy and Natural Resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk Parity			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectation	-	-	2.2%
Alpha	-	-	1.0%
Totals	<u>100.0%</u>		<u>8.7%</u>

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

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.

	<u>1% Decrease (7.00%)</u>	<u>Current Discount Rate (8.00%)</u>	<u>1% Increase (9.00%)</u>
TRS	\$ 4,457,139	\$ 2,844,719	\$ 1,501,674

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS
 AUGUST 31, 2016**

NOTE 4. OTHER INFORMATION - CONTINUED

C. Defined Benefit Pension Plan - Continued

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

At August 31, 2016, the District reported a liability of \$2,844,719 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 are as follows:

District's Proportionate Share of the Net Pension Liability	\$ 2,844,719
State's Proportionate Share of the Net Pension Liability Associated with the District	6,220,961
Total	\$ <u>9,065,680</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, 2016, the employer's proportion of the net pension liability was .0080476%, which was an increase of .0036275% of its proportion measured as of August 31, 2015.

Changes Since the Prior Actuarial Valuation

The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

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

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 4. OTHER INFORMATION - CONTINUED

C. Defined Benefit Pension Plan - Continued

Other Demographic Assumptions

- 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.
- 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 the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
- Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
- 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.
- 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

- 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 \$1,150,217 and revenue of \$886,387 for support provided by the State.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 4. OTHER INFORMATION - CONTINUED

C. Defined Benefit Pension Plan - Continued

At August 31, 2016, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences Between Expected and Actuarial Experience	\$ 15,187	\$ 109,325
Changes of Assumptions	63,824	101,487
Net Difference Between Projected and Actual Earnings on Pension Plan Investments	700,591	270,645
Changes in Proportion and Differences Between District Contributions and Proportionate Share of Contributions (Cost-Sharing Plan)	828,961	836
District Contribution after Measurement Date	246,015	-
Totals	\$ <u>1,854,578</u>	\$ <u>482,293</u>

\$246,015 reported as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended August 31, 2016. Other amounts reported as deferred outflows of resources (deferred inflows of resources) related to pensions will be recognized in pension expense as follows:

Year Ending August 31:	
2017	\$ 205,495
2018	205,495
2019	205,495
2020	295,710
2021	119,611
Thereafter	94,464
Totals	\$ <u>1,126,270</u>

D. School District Retiree Health Plan

Plan Description. The Hempstead Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care 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 Teacher Retirement System of Texas 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 website at www.trs.state.tx.us under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

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

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 4. OTHER INFORMATION - CONTINUED

D. School District Retiree Health Plan - Continued

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. Contribution rates and amounts are shown in the table below for fiscal years 2016-2014.

Contribution Rates						
<u>Year</u>	<u>Active Member</u>		<u>State</u>		<u>School District</u>	
	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
2016	0.65%	\$ 63,049	1.00%	\$ 91,456	0.55%	\$ 53,349
2015	0.65%	\$ 59,901	1.00%	\$ 86,278	0.55%	\$ 56,563
2014	0.65%	\$ 57,795	1.00%	\$ 81,649	0.55%	\$ 56,127

In addition, the State of Texas contributed \$37,082, \$36,730 and \$22,141 in 2016, 2015, and 2014, respectively, for on-behalf payments for Medicare Part D and Early Retiree Reinsurance Program.

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

REQUIRED SUPPLEMENTARY INFORMATION

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED AUGUST 31, 2016**

EXHIBIT G-1

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	Original	Final	Actual		
REVENUES					
5700	<i>Local and Intermediate Sources</i>	\$ 5,308,867	\$ 5,668,644	\$ 5,830,096	\$ 161,452
5800	<i>State Program Revenues</i>	8,293,083	9,222,267	9,645,889	423,622
5900	<i>Federal Program Revenues</i>	142,000	606,420	398,610	(207,810)
5020	Total Revenues	<u>13,743,950</u>	<u>15,497,331</u>	<u>15,874,595</u>	<u>377,264</u>
EXPENDITURES					
Current:					
0011	<i>Instruction</i>	6,935,708	7,496,909	7,491,765	5,144
0012	<i>Instructional Resources and Media Services</i>	142,801	152,341	149,247	3,094
0013	<i>Curriculum and Staff Development</i>	139,587	157,414	156,981	433
0021	<i>Instructional Leadership</i>	223,474	252,654	252,636	18
0023	<i>School Leadership</i>	850,197	979,867	975,280	4,587
0031	<i>Guidance, Counseling, and Evaluation Services</i>	434,255	464,380	463,059	1,321
0033	<i>Health Services</i>	102,097	109,482	108,482	1,000
0034	<i>Student Transportation</i>	485,577	625,877	574,272	51,605
0036	<i>Extracurricular Activities</i>	453,040	553,000	520,519	32,481
0041	<i>General Administration</i>	842,022	990,702	990,615	87
0051	<i>Plant Maintenance and Operations</i>	1,378,162	1,591,085	1,581,280	9,805
0052	<i>Security and Monitoring Services</i>	139,263	260,363	233,221	27,142
0053	<i>Data Processing Services</i>	508,710	907,387	904,418	2,969
0061	<i>Community Services</i>	13,100	13,100	2,338	10,762
Debt Service:					
0071	<i>Principal on Long-term Debt</i>	511,000	438,500	436,515	1,985
0072	<i>Interest on Long-term Debt</i>	-	72,500	70,401	2,099
Intergovernmental:					
0099	<i>Other Intergovernmental Charges</i>	122,557	122,557	106,724	15,833
6030	Total Expenditures	<u>13,281,550</u>	<u>15,188,118</u>	<u>15,017,753</u>	<u>170,365</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>462,400</u>	<u>309,213</u>	<u>856,842</u>	<u>547,629</u>
OTHER FINANCING SOURCES (USES)					
8911	<i>Transfers Out</i>	(462,400)	(462,400)	(28,144)	434,256
7080	Total Other Financing Sources (Uses)	<u>(462,400)</u>	<u>(462,400)</u>	<u>(28,144)</u>	<u>434,256</u>
1200	Net Change in Fund Balance	-	(153,187)	828,698	981,885
0100	Fund Balance - Beginning	2,739,289	2,739,289	2,739,289	-
3000	Fund Balance - Ending	<u>\$ 2,739,289</u>	<u>\$ 2,586,102</u>	<u>\$ 3,567,987</u>	<u>\$ 981,885</u>

The accompanying notes to the required supplementary information are an integral part of this statement.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET
PENSION LIABILITY OF A COST-SHARING MULTIPLE-EMPLOYER
PENSION PLAN
TEACHER RETIREMENT SYSTEM OF TEXAS (TRS)
FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015***

EXHIBIT G-2

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability	0.0080476%	0.0044201%
District's Proportionate Share of the Net Pension Liability	\$ 2,844,719	\$ 1,180,670
State's Proportionate Share of the Net Pension Liability Associated with the District	<u>6,220,961</u>	<u>5,310,337</u>
Total	<u>\$ 9,065,680</u>	<u>\$ 6,491,007</u>
District's Covered-Employee Payroll	\$ 9,215,508	\$ 8,891,203
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll	30.87%	13.30%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.43%	83.25%

* The amounts presented for the fiscal years were determined as of the Plan's fiscal year end, August 31 of the prior year.
Ten years of data is not available.

The accompanying notes to the required supplementary information are an integral part of this statement.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF THE DISTRICT'S CONTRIBUTIONS TO THE TEACHER
 RETIREMENT SYSTEM PENSION PLAN (TRS)
 FOR THE YEARS ENDED AUGUST 31, 2016 AND 2015***

	<u>2016</u>	<u>2015</u>
TRS		
Contractually Required Contributions	\$ 246,015	\$ 238,232
Contributions in Relation to the Contractually Required Contributions	<u>(246,015)</u>	<u>(238,232)</u>
Contribution Deficiency (Excess)	\$ <u>-</u>	\$ <u>-</u>
 District's Covered-Employee Payroll	 \$ 9,699,861	 \$ 9,215,511
 Contributions as a Percentage of Covered- Employee Payroll	 2.54%	 2.59%

*The amounts presented for the fiscal years were determined as of the District's fiscal year end August 31.
 Ten years of data is not available

The accompanying notes to the required supplementary information are an integral part of this statement.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

NOTE 1. BUDGET

A. Budgetary Information

Each school district in Texas is required by law to prepare annually a budget of anticipated revenues and expenditures for the general fund, debt service fund, and the National School Breakfast and Lunch Program special revenue fund. The ESEA Title I fund is required to adopt budgets based on project length, not the District's fiscal year, therefore a budget comparison schedule is not included in the District's required supplementary information. The Texas Education Code requires the budget to be prepared not later than August 20 and adopted by August 31 of each year. The budgets are prepared on a basis of accounting that is used for reporting in accordance with generally accepted accounting principles.

The following procedures are followed in establishing the budgetary data reflected in the fund financial schedules:

1. Prior to August 31 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
3. Prior to September 1, the budget is formally approved and adopted by the Board.

The appropriated budget is prepared by fund and function. The District's campus/department heads may make transfers of appropriations within a campus or department. Transfers of appropriations between campuses or departments require the approval of the District's management. Increasing any one of the functional spending categories, or revenues object accounts and other resources require the approval of the Board. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the function level within a fund. All annual appropriations lapse at fiscal year end.

B. Variances with Final Budget

The District's general fund budget differs from the original budget due to budget revisions that were made during the fiscal period:

- Amendments approved shortly after the beginning of the new fiscal year for amounts restricted, committed, or assigned in the prior year,
- amendments in early and late spring to revise estimates for local and state revenues based on the latest information on student attendance numbers and tax collections, and
- amendments during the year for unexpected occurrences.

Differences between the original and final budget of the general fund were to increase state revenues and expenditures, primarily instruction, for the increase in average daily attendance.

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
NOTES TO THE REQUIRED SUPPLEMENTARY INFORMATION**

NOTE 1. BUDGET - CONTINUED

C. Excess of Expenditures Over Appropriations

For the year ended August 31, 2016, expenditures exceeded appropriations in the functions (the legal level of budgetary control) of the following funds:

Fund	Function	Final Budget	Actual	Variance
None		\$ -	\$ -	\$ -

NOTE 2. PENSION

TRS - Actuarial Assumptions for Contribution Rate

Actuarial Assumptions – The information presented in the following table was used in the actuarial valuation for determining the actuarially determined contribution rate. The assumptions are as follows:

Valuation Date	August 31, 2015
Actuarial Cost Method	Ultimate Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	33 Years
Asset Valuation Method	5 Year Smoothed Market
Actuarial Assumptions:	
Inflation	2.50%
Salary Increases	3.50% to 9.50% including Inflation
Investment Rate of Return	8.00%
Ad Hoc Post-employment Benefit Changes	None
Benefit Changes During the Year	None

SUPPLEMENTARY INFORMATION

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
 AUGUST 31, 2016**

	224	225
Data Control Codes	IDEA - B, Formula	IDEA - B, Preschool
ASSETS		
1110 <i>Cash and Cash Equivalents</i>	\$ -	\$ -
1240 <i>Due from Other Governments</i>	126,815	2,062
1290 <i>Other Receivables</i>	-	-
1300 <i>Inventories</i>	-	-
1490 <i>Other Current Assets</i>	-	-
1000 Total Assets	\$ 126,815	\$ 2,062
LIABILITIES		
2110 <i>Accounts Payable</i>	\$ 3,128	\$ -
2160 <i>Accrued Wages Payable</i>	12,391	311
2170 <i>Due to Other Funds</i>	111,296	1,751
2300 <i>Unearned Revenue</i>	-	-
2000 Total Liabilities	126,815	2,062
FUND BALANCES		
3450 <i>Restricted - Grant Funds</i>	-	-
3545 <i>Committed - Other</i>	-	-
3000 Total Fund Balances	-	-
4000 Total Liabilities and Fund Balances	\$ 126,815	\$ 2,062

240	244	255	263
National School Breakfast and Lunch Program	Career and Technical - Basic Grant	ESEA, Title II, Part A, Teacher and Principal Training and Recruiting	Title III, Part A, English Language Acquisition and Enhancement
\$ -	\$ -	\$ -	\$ -
44,856	4,675	56,743	13,881
24,000	-	-	-
7,415	-	-	-
95,458	-	-	-
<u>\$ 171,729</u>	<u>\$ 4,675</u>	<u>\$ 56,743</u>	<u>\$ 13,881</u>
\$ 22,226	\$ -	\$ -	\$ -
-	-	-	-
146,802	4,675	56,743	13,881
2,701	-	-	-
<u>171,729</u>	<u>4,675</u>	<u>56,743</u>	<u>13,881</u>
-	-	-	-
-	-	-	-
-	-	-	-
<u>\$ 171,729</u>	<u>\$ 4,675</u>	<u>\$ 56,743</u>	<u>\$ 13,881</u>

Continued

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS - SPECIAL REVENUE FUNDS
 AUGUST 31, 2016**

	289	410	428
Data Control Codes	Summer School LEP	State Textbooks Fund	Literacy Achievement Academies
ASSETS			
1110 Cash and Cash Equivalents	\$ -	\$ -	\$ 350
1240 Due from Other Governments	-	13,754	-
1290 Other Receivables	-	-	-
1300 Inventories	-	-	-
1490 Other Current Assets	-	-	-
1000 Total Assets	\$ -	\$ 13,754	\$ 350
LIABILITIES			
2110 Accounts Payable	\$ -	\$ 819	\$ -
2160 Accrued Wages Payable	-	-	-
2170 Due to Other Funds	-	12,935	-
2300 Unearned Revenue	-	-	350
2000 Total Liabilities	-	13,754	350
FUND BALANCES			
3450 Restricted - Grant Funds	-	-	-
3545 Committed - Other	-	-	-
3000 Total Fund Balances	-	-	-
4000 Total Liabilities and Fund Balances	\$ -	\$ 13,754	\$ 350

429 Law Enforcement Officers Standards and Education	461 Campus Activity Funds	499 Locally Funded Special Revenue Fund	Total Nonmajor Funds (See Exhibit C-1)
\$ 1,440	\$ 32,370	\$ -	\$ 34,160
-	-	-	262,786
-	-	-	24,000
-	-	-	7,415
-	-	-	95,458
<u>\$ 1,440</u>	<u>\$ 32,370</u>	<u>\$ -</u>	<u>\$ 423,819</u>
\$ -	\$ -	\$ -	\$ 26,173
-	-	-	12,702
-	-	-	348,083
-	-	-	3,051
<u>-</u>	<u>-</u>	<u>-</u>	<u>390,009</u>
1,440	-	-	1,440
-	32,370	-	32,370
<u>1,440</u>	<u>32,370</u>	<u>-</u>	<u>33,810</u>
<u>\$ 1,440</u>	<u>\$ 32,370</u>	<u>\$ -</u>	<u>\$ 423,819</u>

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

Data Control Codes	224	225
REVENUES	IDEA - B, Formula	IDEA - B, Preschool
5700 <i>Local and Intermediate Sources</i>	\$ -	\$ -
5800 <i>State Program Revenues</i>	-	-
5900 <i>Federal Program Revenues</i>	212,745	3,624
5020 Total Revenues	<u>212,745</u>	<u>3,624</u>
 EXPENDITURES		
Current:		
0011 <i>Instruction</i>	170,706	3,624
0013 <i>Curriculum and Staff Development</i>	8,123	-
0021 <i>Instructional Leadership</i>	4,422	-
0023 <i>School Leadership</i>	-	-
0031 <i>Guidance, Counseling, and Evaluation Services</i>	29,494	-
0035 <i>Food Service</i>	-	-
0036 <i>Extracurricular Activities</i>	-	-
0052 <i>Security and Monitoring Services</i>	-	-
0061 <i>Community Services</i>	-	-
6030 Total Expenditures	<u>212,745</u>	<u>3,624</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>
 OTHER FINANCING SOURCES (USES)		
7915 <i>Transfers In</i>	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balances	-	-
0100 Fund Balances - Beginning	-	-
3000 Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>

240	244	255	263
National School Breakfast and Lunch Program	Career and Technical - Basic Grant	ESEA, Title II, Part A, Teacher and Principal Training and Recruiting	Title III, Part A, English Language Acquisition and Enhancement
\$ 65,363	\$ -	\$ -	\$ -
4,373	-	-	-
<u>783,023</u>	<u>22,855</u>	<u>68,642</u>	<u>31,136</u>
<u>852,759</u>	<u>22,855</u>	<u>68,642</u>	<u>31,136</u>
-	22,855	9,516	31,136
-	-	45,125	-
-	-	2,615	-
-	-	11,386	-
-	-	-	-
852,380	-	-	-
-	-	-	-
-	-	-	-
<u>852,380</u>	<u>22,855</u>	<u>68,642</u>	<u>31,136</u>
<u>379</u>	<u>-</u>	<u>-</u>	<u>-</u>
28,144	-	-	-
<u>28,144</u>	<u>-</u>	<u>-</u>	<u>-</u>
28,523	-	-	-
<u>(28,523)</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Continued

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

	289	410	428
Data Control Codes	Summer School LEP	State Textbooks Fund	Literacy Achievement Academies
REVENUES			
5700 <i>Local and Intermediate Sources</i>	\$ -	\$ -	\$ -
5800 <i>State Program Revenues</i>	-	142,611	-
5900 <i>Federal Program Revenues</i>	3,339	-	-
5020 Total Revenues	<u>3,339</u>	<u>142,611</u>	<u>-</u>
EXPENDITURES			
Current:			
0011 <i>Instruction</i>	3,339	142,611	-
0013 <i>Curriculum and Staff Development</i>	-	-	-
0021 <i>Instructional Leadership</i>	-	-	-
0023 <i>School Leadership</i>	-	-	-
0031 <i>Guidance, Counseling, and Evaluation Services</i>	-	-	-
0035 <i>Food Service</i>	-	-	-
0036 <i>Extracurricular Activities</i>	-	-	-
0052 <i>Security and Monitoring Services</i>	-	-	-
0061 <i>Community Services</i>	-	-	-
6030 Total Expenditures	<u>3,339</u>	<u>142,611</u>	<u>-</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)			
7915 <i>Transfers In</i>	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balances	-	-	-
0100 Fund Balances - Beginning	-	-	-
3000 Fund Balances - Ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

429 Law Enforcement Officers Standards and Education	461 Campus Activity Funds	499 Locally Funded Special Revenue Fund	Total Nonmajor Funds (See Exhibit C-2)
\$ -	\$ 153,013	\$ -	\$ 218,376
780	-	-	147,764
-	-	-	1,125,364
<u>780</u>	<u>153,013</u>	<u>-</u>	<u>1,491,504</u>
-	-	-	383,787
-	-	220	53,468
-	-	-	7,037
-	-	-	11,386
-	-	-	29,494
-	-	-	852,380
-	185,783	-	185,783
121	-	-	121
-	-	-	-
<u>121</u>	<u>185,783</u>	<u>220</u>	<u>1,523,456</u>
<u>659</u>	<u>(32,770)</u>	<u>(220)</u>	<u>(31,952)</u>
-	-	-	28,144
-	-	-	28,144
659	(32,770)	(220)	(3,808)
781	65,140	220	37,618
<u>\$ 1,440</u>	<u>\$ 32,370</u>	<u>\$ -</u>	<u>\$ 33,810</u>

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED AUGUST 31, 2016**

<u>Year Ended August 31</u>	<u>Tax Rates</u>		<u>3 Assessed/Appraised Value For School Tax Purposes</u>
	<u>1</u>	<u>2</u>	
	<u>Maintenance</u>	<u>Debt Service</u>	
2007 and Prior Years	Various	Various	\$ Various
2008	1.04000	0.34000	300,609,652
2009	1.04000	0.34000	333,069,868
2010	1.04000	0.34000	355,493,922
2011	1.04000	0.34000	407,611,014
2012	1.04000	0.34000	416,930,942
2013	1.17000	0.21000	426,002,298
2014	1.17000	0.21000	439,268,623
2015	1.17000	0.21000	461,332,826
2016 School Year Under Audit	1.17000	0.21000	473,528,043

1000 Totals

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

EXHIBIT J-1

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
\$ 256,613	\$ -	\$ 18,403	\$ 2,955	\$ (48,905)	\$ 186,350
34,658	-	4,915	789	(856)	28,098
31,336	-	6,992	437	(966)	22,941
63,072	-	22,183	1,386	(991)	38,512
67,170	-	18,286	5,978	(477)	42,429
83,707	-	19,379	6,335	(2,221)	55,772
104,434	-	24,386	7,973	(1,122)	70,953
143,316	-	39,143	7,026	(1,363)	95,784
270,266	-	101,337	18,189	(14,790)	135,950
-	6,534,687	5,263,655	944,759	-	326,273
\$ 1,054,572	\$ 6,534,687	\$ 5,518,679	\$ 995,827	\$ (71,691)	\$ 1,003,062
		\$ -	\$ -		

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
FOR THE YEAR ENDED AUGUST 31, 2016**

EXHIBIT J-2

Data Control Codes	Budgeted Amounts		Actual	Variance with Final Budget	
	Original	Final		Positive (Negative)	
REVENUES					
5700	<i>Local and Intermediate Sources</i>	\$ 81,495	\$ 105,495	\$ 65,363	\$ (40,132)
5800	<i>State Program Revenues</i>	4,068	14,068	4,373	(9,695)
5900	<i>Federal Program Revenues</i>	724,883	737,578	783,023	45,445
5020	Total Revenues	<u>810,446</u>	<u>857,141</u>	<u>852,759</u>	<u>(4,382)</u>
EXPENDITURES					
Current:					
0035	<i>Food Service</i>	<u>775,490</u>	<u>856,490</u>	<u>852,380</u>	<u>4,110</u>
6030	Total Expenditures	<u>775,490</u>	<u>856,490</u>	<u>852,380</u>	<u>4,110</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>34,956</u>	<u>651</u>	<u>379</u>	<u>(272)</u>
OTHER FINANCING SOURCES (USES)					
7915	<i>Transfers In</i>	<u>-</u>	<u>34,305</u>	<u>28,144</u>	<u>(6,161)</u>
7080	Total Other Financing Sources (Uses)	<u>-</u>	<u>34,305</u>	<u>28,144</u>	<u>(6,161)</u>
1200	Net Change in Fund Balance	34,956	34,956	28,523	(6,433)
0100	Fund Balance - Beginning	<u>(28,523)</u>	<u>(28,523)</u>	<u>(28,523)</u>	<u>-</u>
3000	Fund Balance - Ending	<u>\$ 6,433</u>	<u>\$ 6,433</u>	<u>\$ -</u>	<u>\$ (6,433)</u>

**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE – BUDGET AND ACTUAL
DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2016**

EXHIBIT J-3

Data Control Codes	Budgeted Amounts			Variance with Final Budget Positive (Negative)	
	Original	Final	Actual		
REVENUES					
5700	<i>Local and Intermediate Sources</i>	\$ 972,801	\$ 993,898	\$ 1,064,202	\$ 70,304
5800	<i>State Program Revenues</i>	68,183	68,183	207,055	138,872
5020	Total Revenues	<u>1,040,984</u>	<u>1,062,081</u>	<u>1,271,257</u>	<u>209,176</u>
EXPENDITURES					
Debt Service:					
0071	<i>Principal on Long-term Debt</i>	965,000	965,000	965,000	-
0072	<i>Interest on Long-term Debt</i>	528,418	528,418	528,418	-
0073	<i>Issuance Costs and Fees</i>	9,966	151,807	141,378	10,429
6030	Total Expenditures	<u>1,503,384</u>	<u>1,645,225</u>	<u>1,634,796</u>	<u>10,429</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(462,400)</u>	<u>(583,144)</u>	<u>(363,539)</u>	<u>219,605</u>
OTHER FINANCING SOURCES (USES)					
7901	<i>Refunding Bonds Issued</i>	-	7,675,000	7,675,000	-
7915	<i>Transfers In</i>	462,400	462,400	-	(462,400)
7916	<i>Premium or Discount on Issuance of Bonds</i>	-	495,019	495,019	-
8948	<i>Payment to Refunded Bonds Escrow Agent</i>	-	(8,024,361)	(8,024,361)	-
7080	Total Other Financing Sources (Uses)	<u>462,400</u>	<u>608,058</u>	<u>145,658</u>	<u>(462,400)</u>
1200	Net Change in Fund Balance	-	24,914	(217,881)	(242,795)
0100	Fund Balance - Beginning	261,239	261,239	261,239	-
3000	Fund Balance - Ending	\$ <u>261,239</u>	\$ <u>286,153</u>	\$ <u>43,358</u>	\$ <u>(242,795)</u>

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**OVERALL COMPLIANCE, INTERNAL CONTROL SECTION
AND FEDERAL AWARDS**



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

The Board of Trustees of
Hempstead Independent School District
1440 13th Street
Hempstead, Texas 77445

We have audited, 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hempstead Independent School District as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise District's basic financial statements, and have issued our report thereon dated January 16, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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,

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providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Yours truly,

Weaver and Tidwell, L.L.P.

Weaver and Tidwell, L.L.P.

Conroe, Texas
January 16, 2017



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE

The Board of Trustees of
Hempstead Independent School District
1440 13th Street
Hempstead, Texas 77445

Report on Compliance for Each Major Federal Program

We have audited Hempstead Independent School District's (District) compliance with the types of compliance requirements described in the U.S. *Office of Management and Budget (OMB) Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended August 31, 2016.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program as a basis for designing 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 District's internal control over compliance.

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

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

Purpose of this Report

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.

Yours truly,

Weaver and Tidwell, L.L.P.

Weaver and Tidwell, L.L.P.

Conroe, Texas
January 16, 2017

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

SECTION I – SUMMARY OF AUDITOR’S RESULTS	
FINANCIAL STATEMENTS	
1. Type of auditor’s report issued	Unmodified
2. Internal Control over Financial Reporting:	
a. Material Weakness(es) identified?	No
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	No
3. Noncompliance material to the Financial Statements noted?	No
FEDERAL AWARDS	
4. Internal control over major programs:	
a. Material Weakness(es) identified?	No
b. Significant Deficiency(ies) identified that are not considered to be material weaknesses?	No
5. Type of auditor’s report issued on compliance with major programs	Unmodified
6. Any Audit Findings Disclosed that are Required to be Reported in Accordance with Uniform Guidance?	No
7. Identification of Major Programs	10.553 & 10.555 Child Nutrition Cluster
8. Dollar Threshold Used to Distinguish Between Type A and Type B Federal Programs	\$750,000
9. Auditee Qualified as a Low-Risk Auditee?	No
SECTION II – FINANCIAL STATEMENT FINDINGS	
None reported	
SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS	
None reported	

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

PRIOR YEAR FINDINGS

Finding # 2013-004 – Payroll Control Activities

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

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

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

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

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

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

Finding # 2014-001 – Accounts Payable Control Activities

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

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

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

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

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

Status: The District has separated the responsibility of setting up new vendors from the Accounts Payable clerk. All new vendors are set up by the CFO after all proper documentation has been received and completed by the vendor. In addition, a review of current vendors occurs annually for duplicity and inactivity.

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

PRIOR YEAR FINDINGS

Finding # 2013-005 – Investment Policy

Criteria: The Public Funds Investment Act requires that local governments adopt a written investment policy regarding the investment of its funds and funds under its control, the Board of Trustees shall review its investment policy and investment strategies not less than annually. The Act requires that not less than quarterly, the investment officer prepare and submit a written report including specific elements listed in the Act Sec. 2256.023 (b).

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

Cause: Proper audit trail was not maintained and the District personnel was not monitoring the requirement.

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

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

Status: The investment policy is reviewed and/or updated annually. Also, the investment reports are completed quarterly with all the elements as listed in the Act.

Finding # 2013-006 – Expenditures in Excess of Appropriations

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

Condition: Actual expenditures exceeded appropriations at various function levels in the General Fund, the Child Nutrition Fund, and the Debt Service Fund.

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

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

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

Status: All expenditures are monitored throughout the year to avoid budgets at the functional level from exceeding the appropriations.

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

PRIOR YEAR FINDINGS

Finding # 2013-007 – State Mandated Program Spending Requirement

Criteria: The Texas Education Agency's Financial Accountability and Resource Guide (FASRG) requires that the District expend at least 55% of the Foundation School Program allotment designated for Gifted and Talented on that specific program.

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

Cause: Proper audit trail was not maintained and the District personnel was not monitoring the requirement.

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

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

Status: Management monitors expense to ensure that minimum amounts are spent. The Business Manager reviews the summary of finances as well to ensure that the most accurate data is being used.

Finding # 2013-008 – Competitive Procurement Procedures

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

Condition: During our review of procurement procedures, the District personnel were not able to provide competitive procurement documentation for purchases made during the fiscal year for one vendor with purchases exceeding \$50,000.

Cause: Proper audit trail was not maintained and the District personnel was not monitoring the requirement.

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

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

Status: Management ensures that procurement laws are followed and that all documentation is kept appropriately.

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

PRIOR YEAR FINDINGS

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

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

Condition: The District has no formal process for verification of vendors for suspension or debarment.

Cause: District personnel was not monitoring this requirement.

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

Questioned Cost: None.

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

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

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

PRIOR YEAR FINDINGS

Finding # 2013-015 – Child Nutrition Cluster – Eligibility (CFDA 10.553 and 10.555)

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

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

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

Effect: The lack of support of students' income eligibility status could result in the District inappropriately expending federal funds on ineligible participants in the Child Nutrition Programs and subjecting the District to repayment of those funds from local resources.

Questioned Cost: Unknown.

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

Status: The business office works with the Director of Food Service in order to ensure that all applications are maintained and filled out completely, and that all eligible students are fed.

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

PRIOR YEAR FINDINGS

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

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

Condition: The District has no formal process for verification of vendors for suspension or debarment.

Cause: District personnel was not monitoring this requirement.

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

Questioned Cost: None

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

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

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

CURRENT YEAR FINDINGS

None reported

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

EXHIBIT K-1

(1) Federal Grantor/ Pass Through Grantor/ Program Title	(2) Federal CFDA Number	(2A) Pass-Through Entity Identifying Number	(3) Total Federal Expenditures
<u>U.S. DEPARTMENT OF EDUCATION</u>			
Passed Through State Department of Education:			
<i>ESEA Title I, Part A - Improving Basic Programs</i>	84.010A	16610101237902	447,915
Special Education Cluster (IDEA):			
<i>IDEA - Part B Formula</i>	84.027A	166600012379026600	220,763
<i>IDEA - Part B Preschool</i>	84.173A	166610012379026610	3,624
Total Special Education Cluster (IDEA)			<u>224,387</u>
<i>Career and Technical - Basic Grant</i>	84.048A	16420006237902	23,034
<i>Title III, Part A - English Language Acquisition and Language Enhancement</i>	84.365A	16671001237902	31,136
<i>ESEA Title II, Part A - Teacher and Principal Training and Recruiting</i>	84.367A	16694501237902	68,642
<i>Summer School LEP</i>	84.369A	69551502	3,339
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>798,453</u>
<u>U.S. DEPARTMENT OF AGRICULTURE</u>			
Child Nutrition Cluster:			
Passed Through State Department of Agriculture - Non Cash Assistance:			
<i>National School Lunch Program</i>	10.555	00174	52,992
Passed Through State Department of Education - Cash Assistance:			
<i>School Breakfast Program</i>	10.553	71401601	188,223
<i>National School Lunch Program</i>	10.555	71301601	532,111
Total Child Nutrition Cluster			<u>773,326</u>
Passed Through State Department of Agriculture - Cash Assistance:			
<i>National School Lunch Program Equipment Assistance Grant</i>	10.579	551-6-9224	9,697
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>783,023</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,581,476</u>

The accompanying notes to the schedule of expenditures of federal awards are an integral part of this schedule.

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

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Hempstead 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 Single Audit Act Amendments of 1996 and *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements. Presented below is a reconciliation of federal revenues:

Total Expenditures of Federal Awards per Exhibit K-1	\$ 1,581,476
General Fund - Federal Revenue:	
School Health and Related Services (SHARS)	325,174
E-rate	<u>65,239</u>
Total Federal Revenues per Exhibit C-2	<u>\$ 1,971,889</u>

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**HEMPSTEAD INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO
SELECTED SCHOOL FIRST INDICATORS (UNAUDITED)
FOR THE YEAR ENDED AUGUST 31, 2016**

EXHIBIT L-1

<u>Data Control Codes</u>	<u>Responses</u>	
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 on the financial statements as a whole?	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?	No
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?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not 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	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end?	\$ 196,484
SF11	Net Pension Assets (1920) at fiscal year-end.	\$ -
SF12	Net Pension Liabilities (2540) at fiscal year-end.	\$ 2,844,719
SF13	Pension Expense (6147) at fiscal year-end, excluding On-Behalf Pension Expense (6144)	\$ 263,830