

HUDSON INDEPENDENT SCHOOL DISTRICT
Lufkin, Texas

ANNUAL FINANCIAL REPORT

For the Year Ended August 31, 2017

TABLE OF CONTENTS

	<u>PAGE</u>	<u>EXHIBIT NO.</u>
INTRODUCTORY SECTION:		
Certificate of Board	4	
FINANCIAL SECTION:		
Independent Auditors' Report	6	
Management's Discussion and Analysis	8	
Basic Financial Statements:		
Statement of Net Position	14	A-1
Statement of Activities.....	15	B-1
Balance Sheet - Governmental Funds	16	C-1
Reconciliation of the Governmental Funds - Balance Sheet to the Statement of Net Position	17	C-1R
Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds	18	C-2
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	19	C-3
Statement of Fiduciary Net Position - Fiduciary Funds	20	E-1
Statement of Changes in Fiduciary Net Position - Fiduciary Funds.....	21	E-2
Notes to the Financial Statements.....	22	
Required Supplementary Information:		
Statement of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual - General Fund.....	40	G-1
Schedule of the District's Proportionate Share of the Net Pension Liability	41	G-2
Schedule of the District Contributions	42	G-3
Notes to Required Supplementary Information.....	43	
Combining Statements:		
Combining Balance Sheet - Nonmajor Special Revenue Funds	45	H-1
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds	48	H-2
Required TEA Schedules:		
Schedule of Delinquent Taxes Receivable	52	J-1
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Child Nutrition Program	54	J-4
Schedule of Revenues, Expenditures and Changes in Fund Balance Budget and Actual - Debt Service Fund.....	55	J-5
Federal Awards Section:		
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	57	
Independent Auditors' Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	59	
Schedule of Expenditures of Federal Awards.....	61	K-1
Notes to Schedule of Expenditures of Federal Awards.....	62	
Schedule of Findings, Questioned Costs, and Corrective Action.....	63	
Summary Schedule of Prior Audit Findings	64	
Schedule of Required Responses to Selected School First Indicators	65	L-1

INTRODUCTORY SECTION

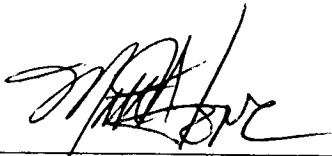
HUDSON INDEPENDENT SCHOOL DISTRICT
CERTIFICATE OF BOARD
August 31, 2017

Hudson Independent School District
Name of School District

Angelina
County

003-902
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial report of the above-named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2017, at a meeting of the Board of Trustees of such school district on the 14th day of DECEMBER 2017



Signature of Board Secretary

Signature of Board President

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

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Hudson Independent School District
Lufkin, Texas

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, and pension schedules information on pages 8-12 and 41-43 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

The introductory and required TEA schedules have 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 them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2017, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report on page 57-58 is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Lufkin, Texas
December 14, 2017


CERTIFIED PUBLIC ACCOUNTANTS

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the District's financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2017. Please read it in conjunction with the District's financial statements, which begin on page 14.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the District exceeded its liabilities and inflows at the close of the most recent fiscal year by \$28,080,548 (Net Position). Of this amount, \$9,196,954 (*unrestricted Net Position*) may be used to meet the District's ongoing obligations to citizens and creditors.
- The District's total Net Position increased by \$165,078. Most of this increase is attributable to the overall decrease in expenses for the year.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$13,559,579, an increase of \$1,002,353 in comparison with the prior year. \$2,033,506 is *available for spending* at the District's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,033,506, or 9% of the General Fund expenditures.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 14 and 15). These provide information about the activities of the District as a whole and present a long-term view of the District's property and obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 16) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the government.

The notes to the financial statements (starting on page 22) provide narrative explanations or additional data needed for full disclosure in the government-wide statements of the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 14. Its primary objective is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets, deferred outflows, deferred inflows, and liabilities while the Statement of Activities includes all the revenue and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the same method used by most private sector companies.

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

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

In the Statement of Net Position and the Statement of Activities, the District has one kind of activity:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The Fund financial statements begin on page 16 and provide detailed information about the most significant funds - not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under ESEA Title I from the U. S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District has only one type of fund, which is governmental.

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

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities and for Stubblefield Learning Center. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 20. We exclude these resources from the District's other financial statements because the District cannot use them to support its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Position of the District's governmental activities increased from \$27,915,472 to \$28,080,548. Unrestricted Net Position - the part of Net Position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was \$9,196,954 at August 31, 2017.

**Table A-1
The District's Net Position**

	Governmental Activities	
	2017	2016
Current and other assets	\$ 15 179 423	\$ 14 541 308
Capital assets	35 733 670	36 928 303
TOTAL ASSETS	50 913 093	51 469 611
Deferred outflows	2 942 975	3 306 215
TOTAL ASSETS AND DEFERRED OUTFLOWS	53 865 068	54 775 826
Long-term liabilities	20 720 827	22 298 159
Other liabilities	2 796 754	3 493 041
TOTAL LIABILITIES	23 517 581	25 791 200
Deferred inflows	2 257 939	1 069 154
TOTAL LIABILITIES AND DEFERRED INFLOWS	25 775 520	26 860 354
Net Position:		
Invested in capital assets, net of related debt	17 117 331	17 282 645
Restricted	1 766 263	2 039 571
Unrestricted	9 196 954	8 593 256
TOTAL NET POSITION	\$ 28 080 548	\$ 27 915 472

**Table A-2
Changes in the District's Net Position**

	<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>2017</u>	<u>2016</u>
Revenues:		
Program Revenues:		
Charges for services	\$ 1 218 257	\$ 1 174 920
Operating grants and contributions	2 780 279	2 614 783
General Revenues:		
Maintenance and operations taxes	5 313 617	5 197 016
Debt service taxes	500 398	481 977
Investment earnings	89 028	66 950
Grants and contributions not restricted	18 611 879	18 269 117
Miscellaneous local and intermediate	264 815	550 267
TOTAL REVENUES	<u>28 778 273</u>	<u>28 355 030</u>
Governmental Activities:		
Instruction	15 884 687	15 707 351
Instructional resources and media services	118 621	297 545
Curriculum and staff development	414 490	451 353
Instructional leadership	108 671	108 279
School leadership	1 681 109	1 612 782
Guidance, counseling and evaluation services	1 004 604	966 527
Social work services	152 204	148 035
Health service	199 223	201 383
Student (pupil) transportation	960 266	932 997
Food services	1 870 345	1 847 976
Co-curricular/extracurricular activities	1 068 889	1 063 599
General administration	981 793	930 804
Plant maintenance and operations	2 582 486	2 705 162
Security and monitoring services	321 042	317 488
Data processing services	241 294	272 295
Community services	-	-
Debt services	731 037	1 098 091
Facilities acquisition and construction	127 736	415 539
Payments related to shared services arrangements	36 775	36 025
Other government charges	127 923	66 516
TOTAL EXPENSES	<u>28 613 195</u>	<u>29 179 747</u>
INCREASE (DECREASE) IN NET POSITION	<u>\$ 165 078</u>	<u>\$ (824 717)</u>

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$13,559,579, which is higher than last year's total of \$12,557,226.

Over the course of the year, the Board of Trustees amended the District's budget several times. These amendments fall into two categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflected the actual beginning balances (versus the amounts we estimated in August of 2017).

The District's General Fund balance of \$11,793,316 reported on pages 16 and 18 differs from the General Fund's budgetary fund balance of \$9,494,175. This is principally due to staying well under budgeted expenditures.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the District had approximately \$36 million invested in a broad range of capital assets, including instructional facilities and equipment, transportation facilities and equipment, athletic facilities, and administrative and maintenance buildings and equipment.

This year's major additions included:

Nursing program technology	\$	182 881
Buses/vehicles		<u>257 612</u>
TOTAL	\$	<u><u>440 493</u></u>

Debt

At year-end, the District had \$16.8 million in bonds outstanding versus \$17.7 million last year. The decrease in the debt resulted from payments on existing debt and through refunding old debt. The District's general obligation bond rating continues to carry the highest rating possible, a rating that has been assigned by national rating agencies.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal year 2018 budget and tax rates. One of those factors is the economy. The District's population growth is expected to continue into the next year.

If these estimates are realized, the District's budgetary General Fund balance is expected to remain stable during 2018. More importantly, however, this will have been accomplished in spite of unfunded mandates.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administration office, at 6735 Ted Trout Drive, Lufkin, Texas.

BASIC FINANCIAL STATEMENTS

HUDSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
August 31, 2017

EXHIBIT A-1

DATA CONTROL CODES		<u>PRIMARY GOVERNMENT GOVERNMENTAL ACTIVITIES</u>
	ASSETS	
1110	Cash and cash equivalents	\$ 14 212 259
1225	Property taxes receivable (net allowance of \$28,454)	256 086
1240	Due from other governments	593 148
1290	Other receivables	64 497
1300	Inventory	43 623
1410	Prepaid expenditures	9 810
	Capital Assets:	
1510	Land and improvements, net	1 686 860
1520	Buildings and improvements, net	32 488 964
1530	Furniture and equipment, net	<u>1 557 846</u>
1000	TOTAL ASSETS	50 913 093
	DEFERRED OUTFLOWS	
1700	Deferred outflows - Pension	<u>2 942 975</u>
1000a	TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>53 856 068</u>
	LIABILITIES	
2110	Accounts payable	209 580
2140	Interest payable	20 679
2200	Accrued liabilities	1 087 252
2516	Discount on issuance of debt	105 054
2300	Unavailable revenue	66 926
2140	Accumulated accredited interest on capital appreciation bonds	449 713
2501	Due within one year	857 550
	Noncurrent Liabilities:	
2502	Due in more than one year	15 895 046
2540	Net pension liability	<u>4 825 781</u>
2000	TOTAL LIABILITIES	<u>23 517 581</u>
	DEFERRED INFLOWS	
2600	Deferred inflows - Pension	799 569
2511	Deferred gain on issuance of debt	<u>1 458 370</u>
	TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>25 775 520</u>
	NET POSITION	
3200	Investment in capital assets, net of related debt	17 117 331
3820	Restricted for federal and state programs	1 228 833
3850	Restricted for debt service	537 430
3900	Unrestricted	<u>9 196 954</u>
3000	TOTAL NET POSITION	<u>\$ 28 080 548</u>

The accompanying notes are an integral part of this statement.

HUDSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended August 31, 2017

EXHIBIT B-1

DATA CONTROL CODES	FUNCTIONS/PROGRAMS	1 EXPENSES	3 PROGRAM REVENUES		4 NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION GOVERNMENTAL ACTIVITIES
			CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	
Governmental Activities:					
11	Instruction	\$ 15 884 687	\$ 682 729	\$ 821 368	\$ (14 380 590)
12	Instruction resources and media services	118 621	-	-	(118 621)
13	Curriculum and staff development	414 490	-	180 202	(234 288)
21	Instructional leadership	108 671	-	-	(108 671)
23	School leadership	1 681 109	-	9 618	(1 671 491)
31	Guidance, counseling, and evaluation services	1 004 604	-	334 307	(670 297)
32	Social work services	152 204	-	74 651	(77 553)
33	Health services	199 223	-	201 674	2 451
34	Student transportation	960 266	-	5 566	(954 700)
35	Food services	1 870 345	512 046	1 149 985	(208 314)
36	Co-curricular/extracurricular activities	1 068 889	23 482	747	(1 044 660)
41	General administration	981 793	-	2 110	(979 683)
51	Plant maintenance and operations	2 582 486	-	51	(2 582 435)
52	Security and monitory services	321 042	-	-	(321 042)
53	Data processing services	241 294	-	-	(241 294)
72	Debt service	731 037	-	-	(731 037)
81	Facilities acquisition and construction	127 736	-	-	(127 736)
93	Payments related to shared services arrangements	36 775	-	-	(36 775)
99	Other government charges	127 923	-	-	(127 923)
TG	TOTAL GOVERNMENTAL ACTIVITIES	<u>28 613 195</u>	<u>1 218 257</u>	<u>2 780 279</u>	<u>(24 614 659)</u>
TP	TOTAL PRIMARY GOVERNMENT	\$ <u>28 613 195</u>	\$ <u>1 218 257</u>	\$ <u>2 780 279</u>	<u>(24 614 659)</u>
General Revenues:					
MT	Property taxes, levied for general purposes				5 313 617
DT	Property taxes, levied for debt service				500 398
IE	Investment earnings				89 028
GC	Grants and contributions not restricted to specific programs				18 611 879
MI	Miscellaneous				264 815
TR	TOTAL GENERAL REVENUES				<u>24 779 737</u>
CN	CHANGE IN NET POSITION				165 078
NB	Net position - Beginning				<u>27 915 470</u>
NE	NET POSITION - ENDING				\$ <u>28 080 548</u>

The accompanying notes are an integral part of this statement.

HUDSON INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
August 31, 2017

EXHIBIT C-1

DATA CONTROL CODES		10 GENERAL FUND	50 DEBT SERVICE FUND	OTHER GOVERN- MENTAL FUNDS	98 TOTAL GOVERN- MENTAL FUNDS
	ASSETS				
1110	Cash and cash equivalents	\$ 12 430 245	\$ 537 129	\$ 1 244 885	\$ 14 212 259
1225	Taxes receivable, net	234 434	21 652	-	256 086
1240	Due from other governments	503 747	-	89 401	593 148
1260	Due from other funds	22 035	-	-	22 035
1290	Other receivables	62 039	301	2 157	64 497
1300	Inventories	-	-	43 623	43 623
1410	Prepaid expenses	9 810	-	-	9 810
1000	TOTAL ASSETS	<u>\$ 13 262 310</u>	<u>\$ 559 082</u>	<u>\$ 1 380 066</u>	<u>\$ 15 201 458</u>
	LIABILITIES				
	Current Liabilities:				
2110	Accounts payable	\$ 131 808	\$ -	\$ 77 772	\$ 209 580
2160	Accrued wages payable	1 035 400	-	51 426	1 086 826
2200	Accrued liabilities	426	-	-	426
2170	Due to other funds	-	-	22 035	22 035
2000	TOTAL LIABILITIES	<u>1 167 634</u>	<u>-</u>	<u>151 233</u>	<u>1 318 867</u>
	Deferred Inflow:				
2600	Unavailable revenue	301 360	21 652	-	323 012
	TOTAL LIABILITIES AND DEFERRED INFLOW	<u>1 468 994</u>	<u>21 652</u>	<u>151 233</u>	<u>1 641 879</u>
	Fund Balances:				
	Nonspendable:				
3410	Investments in inventory	-	-	43 623	43 623
3430	Prepaid items	9 810			9 810
	Restricted Fund Balances:				
3480	Debt service	-	537 430	-	537 430
3490	Other restricted fund balance	-	-	1 185 210	1 185 210
	Committed Fund Balance:				
3510	Construction	5 750 000	-	-	5 750 000
	Assigned Fund Balance:				
3550	Construction	4 000 000	-	-	4 000 000
3600	Unassigned	2 033 506	-	-	2 033 506
3000	TOTAL FUND BALANCES	<u>11 793 316</u>	<u>537 430</u>	<u>1 228 833</u>	<u>13 559 579</u>
4000	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 13 262 310</u>	<u>\$ 559 082</u>	<u>\$ 1 380 066</u>	<u>\$ 15 201 458</u>

The accompanying notes are an integral part of this statement.

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

EXHIBIT C-1R

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS BALANCE SHEET	\$	13 559 579
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not reported in the funds.		35 733 670
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.		256 086
Payables for bond principal which are not due in the current period are not reported in the funds.		(16 752 596)
Payables for bond interest which are not due in the current period are not reported in the funds.		(470 392)
Payables for capitalization of bond issuance cost, discount on issuance and deferred gain on issuance of debt are not reported in the funds.		(1 563 424)
Some Liabilities, Including Net Pension Obligations, and Deferred Items Related to Pensions, are not Due and Payable in the Current Period and, therefore, are not Reported in the Funds:		
Net pension liability (from pension note)		(4 825 781)
Deferred outflows related to pensions		2 942 975
Deferred inflows of resources related to pensions (from pension schedule)		<u>(799 569)</u>
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES - STATEMENT OF NET POSITION	\$	<u>28 080 548</u>

The accompanying notes are an integral part of this statement.

HUDSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE -
GOVERNMENTAL FUNDS
For the Year Ended August 31, 2017

EXHIBIT C-2

DATA CONTROL CODES		10 GENERAL FUND	50 DEBT SERVICE FUND	OTHER GOVERN- MENTAL FUNDS	98 TOTAL GOVERN- MENTAL FUNDS
	Revenues:				
5700	Local and intermediate sources	\$ 5 732 185	\$ 505 829	\$ 1 174 797	\$ 7 412 811
5800	State program revenues	17 758 134	853 745	318 976	18 930 855
5900	Federal program revenues	199 195	-	2 262 108	2 461 303
5020	TOTAL REVENUES	<u>23 689 514</u>	<u>1 359 574</u>	<u>3 755 881</u>	<u>28 804 969</u>
	Expenditures:				
	Current:				
0011	Instruction	13 798 743	-	1 068 060	14 866 803
0012	Instructional resources and media services	96 756	-	-	96 756
0013	Curriculum and staff development	219 102	-	180 202	399 304
0021	Instructional leadership	104 262	-	-	104 262
0023	School leadership	1 385 099	-	166 605	1 551 704
0031	Guidance, counseling and evaluation services	624 226	-	334 307	958 533
0032	Social work services	3 667	-	142 959	146 626
0033	Health services	194 406	-	2 479	196 885
0034	Student transportation	1 034 205	-	6 519	1 040 724
0035	Food services	-	-	1 647 114	1 647 114
0036	Co-curricular/extracurricular activities	850 008	-	-	850 008
0041	General administration	943 081	-	13 062	956 143
0051	Plant maintenance and operations	2 428 537	-	78 514	2 507 051
0052	Security and monitoring services	307 058	-	1 091	308 149
0053	Data processing services	98 593	-	-	98 593
0071	Principal on long-term debt	124 428	1 517 820	-	1 642 248
0081	Facilities acquisition	309 170	-	-	309 170
0093	Payments to shared service arrangements	36 775	-	-	36 775
0099	Other governmental charges	127 923	-	-	127 923
6030	TOTAL EXPENDITURES	<u>22 686 039</u>	<u>1 517 820</u>	<u>3 640 912</u>	<u>27 844 771</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>1 003 475</u>	<u>(158 246)</u>	<u>114 969</u>	<u>960 198</u>
	Other Financing Sources:				
7911	Bond proceeds	-	3 690 987	-	3 690 987
7916	Premium on bond issue	-	307 905	-	307 905
7915	Transfer in	1 497 039	1 237 015	1 553	2 735 607
8911	Transfer out	(1 224 853)	(1 479 224)	(31 530)	(2 735 607)
8949	Other uses - Payment to escrow	-	(3 956 737)	-	(3 956 737)
	TOTAL OTHER FINANCING SOURCES	<u>272 186</u>	<u>(200 054)</u>	<u>(29 977)</u>	<u>42 155</u>
1200	NET CHANGE IN FUND BALANCES	1 275 661	(358 300)	84 992	1 002 353
0100	Fund balances - Beginning	10 517 655	895 730	1 143 841	12 557 226
3000	FUND BALANCES - ENDING	<u>\$ 11 793 316</u>	<u>\$ 537 430</u>	<u>\$ 1 228 833</u>	<u>\$ 13 559 579</u>

The accompanying notes are an integral part of this statement.

HUDSON 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, 2017

EXHIBIT C-3

Net change in fund balances - Total governmental funds	\$	1 002 353
Amounts Reported for Governmental Activities in the Statement of Activities ("SOA") are Different Because:		
The depreciation of capital assets used in governmental activities is not reported in the funds.		(1 820 005)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.		16 464
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.		970 809
(Increase) decrease in accrued interest from beginning of period to end of period.		16 810
Current year capital outlays is an expenditure in the funds but is not an expense in the SOA.		625 372
Amortization of bond discounts are not an expense in the SOA.		(118 563)
Governmental Funds Report District Pension Contributions as Expenditures in the Government Wide Statements the Cost of Pension Benefits Earned Net of Employee Contributions is Reported as Pension Expense:		
Cost of benefits earned net of employee contributions (pension schedule)		(528 164)
Rounding		<u>2</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES - STATEMENT OF ACTIVITIES	\$	<u>165 078</u>

The accompanying notes are an integral part of this statement.

HUDSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
August 31, 2017

EXHIBIT E-1

	PRIVATE- PURPOSE TRUST FUNDS	AGENCY FUND STUDENT ACTIVITY
ASSETS		
Cash and cash equivalents	\$ 37 403	\$ 242 757
Capital Assets:		
Furniture and fixtures, net	13 070	-
Improvements, net	13 702	-
Machinery and equipment, net	10 001	-
Software, net	6 772	-
TOTAL ASSETS	\$ 80 948	\$ 242 757
LIABILITIES		
Due to student groups	\$ -	\$ 242 757
TOTAL LIABILITIES	-	242 757
NET POSITION		
Held in trust	80 948	-
TOTAL NET POSITION	\$ 80 948	\$ -

The accompanying notes are an integral part of this statement.

HUDSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
August 31, 2017

EXHIBIT E-2

	PRIVATE- PURPOSE TRUST FUNDS
<p>Additions:</p> <p style="padding-left: 20px;">Interest</p> <p style="padding-left: 40px;">TOTAL ADDITIONS</p>	<p>\$ <u>9 964</u></p> <p><u>9 964</u></p>
<p>Deductions:</p> <p style="padding-left: 20px;">Depreciation</p> <p style="padding-left: 40px;">TOTAL DEDUCTIONS</p>	<p><u>15 235</u></p> <p><u>15 235</u></p>
CHANGE IN NET POSITION	(5 271)
Net position - Beginning of the year	<u>86 219</u>
NET POSITION - END OF THE YEAR	\$ <u><u>80 948</u></u>

The accompanying notes are an integral part of this statement.

HUDSON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
August 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

Hudson Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Changes in Net Position) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* include programs supported by taxes, state foundation and intergovernmental revenues.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenue* includes 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. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collectible within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due.

Property taxes, user fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the District.

The District reports the following major governmental fund:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

HUDSON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the District reports the following fund types:

Governmental Funds:

Special Revenue Funds - The District accounts for resources restricted to specific purposes by the District or a grantor in a Special Revenue Fund. Most federal and some state financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project period.

Fiduciary Funds:

Private Purpose Trust Funds - These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types.

Agency Funds - The District accounts for resources held for others in a custodial capacity in Agency Funds. The District's Agency Funds are Student Activity and Scholarship Fund.

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

Amounts reported as *program revenue* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenue* rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds are used to account for the District's ongoing organizations and activities which are similar to those found in the private sector. The measurement focus is upon capital maintenance and upon determination of net income, financial position and changes in financial position. The District has no proprietary funds.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Balance:

Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" provides defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

- Nonspendable fund balance - amounts that are in nonspendable form (such as inventory) or are required to be maintained intact.
- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

HUDSON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- Committed fund balance - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., School Board). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- Assigned fund balance - amounts the District intends to use for a specific purpose. Intent can be expressed by the School Board or by an official or body to which the School Board delegates the authority.
- Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The School Board establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by School Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

D. Assets, Liabilities and Net Position or Equity

1. Deposits and Investments

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

State statutes authorize the District to invest in obligations of the U. S. Treasury, commercial paper, corporate bonds, repurchase agreements, and the State Treasurer's Investment Pool.

Investments for the government are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All property taxes receivable are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 10% of outstanding property taxes at August 31, 2017.

HUDSON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 August 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Property taxes are levied as of October 1 on property values assessed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid before February 1 of the following year. On January 31 of each year, a tax lien attaches to property to secure payment of all taxes, penalties, and interest ultimately imposed.

There are no tax abatements for the district as of August 31, 2017.

3. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets, are reported in the governmental or business-type activities columns in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment of the District is depreciated using the straight-line method over the following estimated useful lives:

ASSETS	YEARS
Buildings and improvements	39
Portable buildings	20
Vehicles	7
Furniture and equipment	5-10

4. Long-Term Obligations

In the financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed in the year incurred.

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

5. Deferred Inflows and Outflows

The Statement of Financial Position will report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Statement of Financial Position will report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

HUDSON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 August 31, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Pensions

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

7. Subsequent Events

Management has evaluated subsequent events through December 14, 2017, the date the financial statements were available to be issued.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Child Nutrition Fund.

The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the functional and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end.
5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at year-end.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of August 31, 2017, the District had the following investments:

INVESTMENT TYPE	FAIR VALUE	WEIGHTED AVERAGE MATURITY (DAYS)
Tex Pool	\$ 121 950	37
Lone Star Plus Fund	3 439 169	43
Lone Star Government Fund	5 809	22
Texas CLASS	1 126 610	42
TOTAL	\$ 4 693 538	

HUDSON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2017

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposits. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

The District's investment pools are 2a7-like pools. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

Custodial Credit Risk

In the case of deposits, custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. At August 31, 2017, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$14,509,966 and the bank balance was \$13,958,058. The District's cash deposits at August 31, 2017 and during the period ended August 31, 2017, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

Credit Risk

It is the District's policy to limit its investments to investment types with an investment quality rating not less than "A" or its equivalent by a nationally recognized statistical rating organization. The District's investment pools are rated as follows by Standard and Poor's Investors Service:

Lone Star Plus Fund	AAA
Lone Star Government Fund	AAA

B. Receivables

Receivables as of year-end for the District's individual major funds and nonmajor and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	GENERAL	DEBT SERVICE	NONMAJOR AND OTHER	TOTAL
Receivables:				
Taxes	\$ 260 482	\$ 24 058	\$ -	\$ 284 540
Due from other governments	503 747	-	89 401	593 148
Other	62 039	301	2 157	64 497
GROSS RECEIVABLES	826 268	24 359	91 558	942 185
Less: Allowance for uncollectibles	26 048	2 406	-	28 454
TOTAL NET RECEIVABLES	\$ 800 220	\$ 21 953	\$ 91 558	\$ 913 731

HUDSON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 August 31, 2017

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

Governmental funds report *unavailable revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *unavailable revenue* reported in the governmental funds were as follows:

	<u>UNAVAILABLE</u>
Delinquent property taxes receivable (general fund)	\$ 234 434
Out of district tuition (general fund)	66 926
Delinquent property taxes receivable (debt service fund)	21 652
TOTAL UNEARNED REVENUE FOR GOVERNMENTAL FUNDS	\$ 323 012

C. Capital Assets

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

	BEGINNING BALANCE	INCREASES	DECREASES	ENDING BALANCE
Governmental Activities:				
Capital Assets, Not Being Depreciated:				
Land	\$ 1 678 284	\$ -	\$ -	\$ 1 678 284
TOTAL CAPITAL ASSETS NOT BEING DEPRECIATION	1 678 284	-	-	1 678 284
Capital Assets, Being Depreciated:				
Land improvements	42 872	-	-	42 872
Buildings and improvements	56 421 218	202 821	-	56 624 039
Machinery and equipment	5 868 271	466 526	(377 916)	5 956 881
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	62 332 361	669 347	(377 916)	62 623 792
Less Accumulated Depreciation for:				
Land and land improvements	30 009	4 287	-	34 296
Buildings and improvements	22 782 592	1 352 483	-	24 135 075
Machinery and equipment	4 270 553	463 235	(334 752)	4 399 035
TOTAL ACCUMULATED DEPRECIATION	27 083 153	1 820 005	(334 752)	28 568 406
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	35 249 208	(1 150 658)	(43 164)	34 055 386
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	\$ 36 927 492	\$ (1 150 658)	\$ (43 164)	\$ 35 733 670

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

Instruction	\$ 890 555
Instructional resources	16 997
Instructional leadership	1 832
School leadership	84 783
Guidance, counseling, and evaluation services	1 102
Health services	554
Student transportation	118 872
Food services	195 270
Co-curricular/extracurricular activities	281 776
General administration	10 754
Facilities maintenance and operations	65 685
Security and monitoring services	9 514
Data processing services	142 312
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	\$ 1 820 005

HUDSON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2017

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Bonds Payable

A summary of changes in long-term debt for the year ended August 31 is as follows:

DESCRIPTION	AMOUNTS ORIGINAL ISSUE	PAYABLE AMOUNT OUT- STANDING 08/31/2016	ADDITIONS	PRINCIPAL PAYMENTS	AMORTI- ZATION	BALANCE 08/31/2017
Taxable Series 2005 (Qualified Zone Academy Bonds)	\$ 2 508 700	\$ 1 972 310	\$ -	\$ -	\$ -	\$ 1 972 310
Discount of Issuance	481 429	199 089	-	-	(39 817)	159 272
Unlimited Tax School Bldg Series 2008	-	245 000	-	(245 000)	-	-
Deferred gain	-	11 261	-	-	(11 261)	-
Unlimited Tax School Bld and Refunding Series 2009:						
Current Interest Bonds	5 000 000	3 380 000	-	(3 085 000)	-	295 000
Capital Appreciation Bond (CAB)	1 291 093	906 095	-	(890 808)	-	15 287
CAB - Compound Interest	493 907	183 905	-	(59 192)	-	124 713
Premium on Bond Issue	386 940	293 539	-	-	(97 846)	195 693
Unlimited Tax Refunding Bonds, Series 2013	4 295 000	3 605 000	-	(340 000)	-	3 265 000
Premium	296 941	242 951	-	-	(26 995)	215 956
Unlimited Tax Refunding Series 2015:						
Current Interest Bonds	7 425 000	7 285 000	-	(35 000)	-	7 250 000
Capital Appreciation Bond (CAB)	330 000	330 000	-	-	-	330 000
CAB - Compound Interest	245 000	245 000	-	-	-	245 000
Premium	608 522	608 522	-	-	(28 977)	579 545
Deferred gain	110 307	110 307	-	-	(5 253)	105 054
Unlimited Tax Refunding Series 2016A:						
Current Interest Bonds	3 410 000	-	3 410 000	(20 000)	-	3 390 000
Capital Appreciation Bond (CAB)	235 000	-	235 000	-	-	235 000
CAB - Compound Interest	80 000	-	80 000	-	-	80 000
Premium	307 905	-	307 905	-	-	307 905
Unlimited Tax Refunding Series 2016B	-	-	45 000	(45 000)	-	-
TOTAL		\$ 19 617 979	\$ 4 077 905	\$ (4 720 000)	\$ (210 149)	\$ 18 765 735

Interest rates vary from 0% to 5%; interest of \$444,652 was paid during the year.

Reconciliation to Statement of Net Position:

	BONDS OUTSTANDING	DEFERRED AMOUNTS	ACCRUED INTEREST	CAB ACCRUED INTEREST
Taxable Series 2005	\$ 1 972 310	\$ 159 271	\$ -	\$ -
Series 2009	295 000	195 693	459	-
CAB 2009	15 287	-	-	-
CAB 2009 Compound Interest	-	-	-	124 713
Series 2013	3 265 000	215 956	4 432	-
Series 2015	7 250 000	579 545	10 349	-
CAB 2015	330 000	105 054	-	-
CAB 2015 Compound Interest	-	-	-	245 000
Series 2016	3 390 000	307 905	5 439	-
CAB 2016	235 000	-	-	-
CAB 2016 Compound Interest	-	-	-	80 000
TOTAL TO STATEMENT OF NET POSITION	\$ 16 752 597	\$ 1 563 424	\$ 20 679	\$ 449 713

Debt service requirements are as follows:

YEAR ENDED AUGUST 31,	GENERAL OBLIGATIONS		CAB		TOTAL REQUIREMENTS
	PRINCIPAL	INTEREST	PRINCIPAL	INTEREST	
2018	\$ 665 000	\$ 454 561	\$ 192 550	\$ 167 450	\$ 1 479 561
2019	365 000	438 373	387 737	282 266	1 473 376
2020	1 055 000	413 360	-	-	1 468 380
2021	3 067 310	371 541	-	-	3 438 851
2022	1 155 000	325 760	-	-	1 480 760
2023 - 2027	3 990 000	1 118 674	-	-	5 108 674
2028 - 2032	2 635 000	706 264	-	-	3 341 264
2033 - 2037	3 105 000	274 844	-	-	3 379 844
2038	135 000	2 363	-	-	137 363
TOTAL	\$ 16 172 310	\$ 4 105 740	\$ 580 287	\$ 449 716	\$ 21 308 053

HUDSON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2017

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31.

Advanced Refunding:

The District issued \$3,455,000 of unlimited tax refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for future debt service payment on the refunded bonds. The net proceeds of \$3,690,000 (after issuance costs of \$41,168, plus premium of \$307,905) were used to advance refund a portion of the Unlimited Tax Refunding Series 2009 bond with a total principal amount of \$3,690,000 and interest ranging from 4.0% to 5.5%. As a result, the refunded portion of the bonds are considered to be defeased and the liability has been removed from the government-wide financial statements.

This advance refunding was undertaken to reduce total debt service payments over the next ten years by \$360,463 and resulted in an economic gain of \$289,260.

EXCERPT FROM GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Other Financing Sources (Uses):	
Proceeds of refunding bonds	\$ 3 690 000
Proceeds of refunding bonds	307 905
Payment to refunded bond escrow agent	(3 868 749)

E. Accumulated Unpaid Vacation and Sick Leave Benefits

At August 31, the District had no liability for accrued sick leave or vacation leave.

F. Pension Plan

Plan Description:

The District participates in a cost-sharing multiple-employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). 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.

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

Pension Plan Fiduciary Net Position:

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at https://www.trs.texas.gov/TRS%20Documents/cafr_2016.pdf; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592.

HUDSON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2017

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

Benefits Provided:

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

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

	CONTRIBUTION RATES	
	2016	2017
Member	7.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Employer Contributions	\$ 383 212	\$ 405 751
Member Contributions	\$ 333 384	\$ 375 921
NECE On-behalf Contributions	\$ 826 550	\$ 849 761

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).

HUDSON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 August 31, 2017

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

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

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

In addition to the employer contributions listed above, 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, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term Expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases	3.50% to 9.50% including inflation
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.

HUDSON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2017

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

Discount Rate:

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

ASSET CLASS	TARGET ALLOCATION	LONG-TERM EXPECTED GEOMETRIC REAL RATE OF RETURN	EXPECTED CONTRIBUTION TO LONG-TERM PORTFOLIO RETURNS*
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%
Stable Value Hedge Funds	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%
Total	<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 returns.

Discount Rate Sensitivity Analysis:

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

	1% DECREASE IN DISCOUNT RATE (7.0%)	DISCOUNT RATE (8.0%)	1% INCREASE IN DISCOUNT RATE (9.0%)
District proportionate share of the net pension liability	\$ 7 568 868	\$ 4 825 781	\$ 2 618 728

HUDSON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2017

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

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

At August 31, 2017, the District reported a liability of \$4,825,781 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$	4 825 781
State's proportionate share that is associated with the District		3 305 883
TOTAL	\$	<u>8 131 664</u>

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2015 thru August 31, 2016.

At August 31, 2016 the District's proportion of the collective net pension liability was 0.0128% which was an increase (decrease) of (0.0002%) from its proportion measured as of August 31, 2015.

Changes Since the Prior Actuarial Valuation - There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

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

For the year ended August 31, 2017, the District recognized pension expense of \$758,920 and revenue of \$849,761 for support provided by the State.

At August 31, 2017, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	DEFERRED OUTFLOWS OF RESOURCES	DEFERRED INFLOWS OF RESOURCES
Differences between expected and actual economic experience	\$ 75 667	\$ 144 095
Changes in actuarial assumptions	147 081	133 764
Difference between projected and actual investment earnings	929 935	521 297
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	868 591	413
Contributions paid to TRS subsequent to the measurement date (to be calculated by employer)	921 701	-
TOTAL	<u>\$ 2 942 975</u>	<u>\$ 799 569</u>

HUDSON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 August 31, 2017

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

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

YEAR ENDED AUGUST 31,	PENSION EXPENSE AMOUNT
2018	\$ 211 792
2019	\$ 211 792
2020	\$ 472 441
2021	\$ 191 766
2022	\$ 114 715
Thereafter	\$ 19 199

G. Health Care Coverage

Plan Description:

The 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 Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Website at www.trs.state.tx.us under the TRS Publications heading.

Funding Policy:

Contribution requirements are not actuarially determined, but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203 and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution limits were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2017, 2016 and 2015. Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Contribution rates and amounts are shown in the table below for fiscal years 2017-2015.

CONTRIBUTION RATES AND AMOUNTS							
YEAR	MEMBER		STATE		SCHOOL DISTRICT		
	RATE	AMOUNT	RATE	AMOUNT	RATE	AMOUNT	
2017	0.65%	\$ 105 948	1.00%	\$ 162 997	0.55%	\$ 89 648	
2016	0.65%	\$ 104 908	1.00%	\$ 161 397	0.55%	\$ 88 769	
2015	0.65%	\$ 101 589	1.00%	\$ 156 291	0.55%	\$ 85 960	

HUDSON INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
August 31, 2017

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

Medicare Prescription Drug, Improvement and Modernization Act of 2003, which was effective January 1, 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for Texas Public School Retiree Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2017, 2016 and 2015, the subsidy payments received by TRS-Care on behalf of the District were:

<u>YEAR</u>		<u>AMOUNT</u>
2017	\$	82 805
2016	\$	65 679
2015	\$	64 545

H. Commitments and Contingencies

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

I. Due from State Agencies

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

<u>FUND</u>	<u>STATE ENTITLEMENTS</u>		<u>FEDERAL GRANTS</u>		<u>STATE GRANTS</u>	<u>TOTAL</u>
General	\$ 503 747	\$	-	\$	-	\$ 503 747
Special revenue	-		86 866		2 535	89 401
TOTAL	<u>\$ 503 747</u>	<u>\$</u>	<u>86 866</u>	<u>\$</u>	<u>2 535</u>	<u>\$ 593 148</u>

HUDSON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 August 31, 2017

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

J. Revenue from Local and Intermediate Sources

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

	GENERAL FUND	DEBT SERVICE	NONMAJOR FUNDS	TOTAL
Property taxes	\$ 5 248 086	\$ 487 289	\$ -	\$ 5 735 375
Penalties, interest and other tax- related income	65 531	13 109	-	78 640
Investment income	81 598	5 431	1 999	89 028
Food sales	-	-	511 954	511 954
Tuition	185 405	-	-	185 405
Athletic activities	23 482	-	-	23 482
Gifts and bequests	31 409	-	178 575	209 984
Shared service arrangements	-	-	480 952	480 952
Other	96 674	-	1 317	97 991
TOTAL	<u>\$ 5 732 185</u>	<u>\$ 505 829</u>	<u>\$ 1 174 797</u>	<u>\$ 7 412 811</u>

K. Medicaid Administrative Claiming

The District participates in a Medicaid Administrative Claiming Program (MAC). The MAC Program provides reimbursement for outreach activities to locate, identify and refer children who might be at risk of poor school performance outcome due to physical or mental health needs. The fiscal agent is Fairbanks, L.L.C. who will distribute all funds generated to the individual districts and will collect the commission fee from all members.

L. Shared Service Arrangements

Shared Services Arrangement - Fiscal Agent:

The District serves as the Fiscal Agent for Stubblefield Learning Center. Stubblefield Learning Center is a Shared Service Arrangement along with four other participating school districts within Angelina County. The campus is an alternative education program which specializes in assisting at-risk students who have been identified with the risk of potentially dropping out of the traditional public school setting. Hudson Independent School District works in conjunction with the Angelina County Chamber of Commerce who also funds the campus independently with private (non-school) funds. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in two special revenue funds (Chamber Stubblefield Learning Center and Stubblefield Learning Center) and will be accounted for using Model 3 in the SSA section of the Resource Guide. Expenditures of the SSA are allocated to member districts based on the number of children enrolled, and are summarized below:

MEMBER DISTRICTS	459 STUBBLEFIELD LEARNING CENTER
Lufkin ISD	\$ 271 814
Hudson ISD	92 357
Diboll ISD	62 623
Central ISD	51 246
Zavalla ISD	2 912
TOTAL	<u>\$ 480 952</u>

HUDSON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 August 31, 2017

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

The amount contributed by Angelina County Chamber of Commerce is summarized below:

	458 CHAMBER STUBBLEFIELD LEARNING CENTER
Angelina County Chamber of Commerce	\$ 78 867

Shared Services Arrangement - Membership:

The District also participates in a Model 3 shared services arrangement which pays for the salary of an occupational therapist. Huntington Independent School District is the fiscal agent. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Huntington Independent School District, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manger is responsible for all financial activities of the SSA.

M. Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

N. Interfund Transfers and Balances

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

Due from	Due to	AMOUNT	
Special Revenue Funds	General	\$ 22 035	Short term advance
Transfer in	Transfer out	AMOUNT	
Special revenue	General fund	\$ 1 553	
General fund	Special revenue	1 497 039	
Debt service	General fund	1 237 015	
		\$ 2 735 607	

REQUIRED SUPPLEMENTARY INFORMATION

HUDSON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended August 31, 2017

EXHIBIT G-1

DATA CONTROL CODES		BUDGETED AMOUNTS			VARIANCE WITH FINAL BUDGET POSITIVE OR (NEGATIVE)
		1 ORIGINAL	2 FINAL	3 ACTUAL	
Revenues:					
5700	Local and intermediate sources	\$ 5 539 047	\$ 6 095 622	\$ 5 732 185	\$ (363 437)
5800	State program revenues	17 452 761	17 490 761	17 758 134	267 373
5900	Federal program revenues	175 000	176 400	199 195	22 795
5020	TOTAL REVENUES	<u>23 166 808</u>	<u>23 762 783</u>	<u>23 689 514</u>	<u>(73 269)</u>
Expenditures:					
Current:					
0011	Instruction	14 287 591	14 454 655	13 798 743	655 912
0012	Instructional resources and media services	286 678	293 886	96 756	197 130
0013	Curriculum and staff development	263 966	263 966	219 102	44 864
0021	Instructional leadership	107 801	111 059	104 262	6 797
0023	School leadership	1 390 815	1 391 965	1 385 099	6 866
0031	Guidance, counseling and evaluation services	636 201	636 201	624 226	11 975
0032	Social work service	4 400	5 400	3 667	1 733
0033	Health services	200 443	201 176	194 406	6 770
0034	Student transportation	1 134 043	1 160 879	1 034 205	126 674
0036	Co-curricular/extracurricular activities	852 083	896 040	850 008	46 032
0041	General administration	980 825	1 015 452	943 081	72 371
0051	Plant maintenance and operations	2 423 508	2 676 108	2 428 537	247 571
0052	Security and monitoring services	309 453	309 453	307 058	2 395
0053	Data processing services	101 240	101 240	98 593	2 647
0071	Debt service	127 000	127 000	124 428	2 572
0081	Facilities acquisition and construction	235 640	330 653	309 170	21 483
0093	Payments to shared service arrangement	38 261	38 261	36 775	1 486
0099	Other governmental charges	102 000	132 000	127 923	4 077
6030	TOTAL EXPENDITURES	<u>23 481 948</u>	<u>24 145 394</u>	<u>22 686 039</u>	<u>1 459 355</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(315 140)</u>	<u>(382 611)</u>	<u>1 003 475</u>	<u>1 386 086</u>
Other Financing Uses:					
7900	Transfer in	-	-	1 497 039	1 497 039
8911	Transfer out	-	-	(1 224 853)	(1 224 853)
	TOTAL OTHER FINANCING USES	<u>-</u>	<u>-</u>	<u>272 186</u>	<u>272 186</u>
1200	NET CHANGE IN FUND BALANCE	(315 140)	(382 611)	1 275 661	1 658 272
0100	Fund balance - Beginning	<u>10 517 655</u>	<u>10 517 655</u>	<u>10 517 655</u>	-
3000	FUND BALANCE - ENDING	<u>\$ 10 202 515</u>	<u>\$ 10 135 044</u>	<u>\$ 11 793 316</u>	<u>\$ 1 658 272</u>

See independent auditors' report.

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

EXHIBIT G-2

	2017	2016	2015
District's proportion of the net pension liability (asset)	0.0128%	0.0129%	0.0089%
District's proportionate share of the net pension liability (asset)	\$ 4 825 781	\$ 4 574 754	\$ 2 378 409
State's proportionate share of the net pension liability (asset) associated with the District	3 305 883	3 104 502	1 840 086
TOTAL	\$ 8 131 664	\$ 7 679 256	\$ 4 218 495
District's covered-employee payroll	\$ 16 139 747	\$ 15 629 060	\$ 15 160 188
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	29.9%	29.3%	15.7%
Plan fiduciary net position as a percentage of the total pension liability	78.0%	78.4%	83.3%

* This schedule is illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

See independent auditors' report.

HUDSON INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT CONTRIBUTIONS
 TEACHER RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS*

EXHIBIT G-3

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Contractually required contribution	\$ 375 921	\$ 383 212	\$ 219 841
Contributions in relation to the contractually required contribution	<u>375 921</u>	<u>383 212</u>	<u>219 841</u>
CONTRIBUTION DEFICIENCY (EXCESS)	\$ <u>-</u>	\$ <u>-</u>	\$ <u>-</u>
District's covered-employee payroll	\$ 16 299 694	\$ 16 139 747	\$ 15 629 060
Contributions as a percentage of covered-employee payroll	2.31%	1.87%	1.41%

* This schedule is illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

See independent auditors' report.

HUDSON INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
August 31, 2017

Budgetary Information

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the National School Breakfast and Lunch Fund which is included in the Special Revenue Funds. The District presented the General Fund budgetary comparison schedule as required supplementary information. The Child Nutrition Fund and Debt Service Fund budgetary comparison schedules are presented as required TEA schedules. The District is required to present the adopted and final amended budgeted revenue and expenditures for each of these funds. The District compares the final amended budget to actual revenue and expenditures.

Defined Benefit Pension Plan

Changes of Benefit Terms

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

Changes of Assumptions

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

COMBINING STATEMENTS

HUDSON INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 August 31, 2017

DATA CONTROL CODES		211 ESEA TITLE I	224 IDEA PART B FORMULA	225 IDEA PART B PRESCHOOL	240 CHILD NUTRITION
	ASSETS				
1110	Cash and cash equivalents	\$ 61 688	\$ -	\$ 2 463	\$ 379 476
1242	Due from other governments	4 908	30 169	-	48 132
1290	Other receivables	-	-	-	-
1300	Inventories	-	-	-	43 623
1000	TOTAL ASSETS	<u>\$ 66 596</u>	<u>\$ 30 169</u>	<u>\$ 2 463</u>	<u>\$ 471 231</u>
	LIABILITIES AND FUND BALANCES				
	Liabilities:				
2110	Accounts payable	\$ 3 500	\$ -	\$ -	\$ 70 430
2160	Accrued wages payable	1 589	8 592	1 527	39 718
2170	Due to other funds	-	21 577	-	-
2000	TOTAL LIABILITIES	<u>5 089</u>	<u>30 169</u>	<u>1 527</u>	<u>110 148</u>
	Fund Balances:				
	Restricted Fund Balances:				
3410	Nonspendable - Inventory	-	-	-	43 623
3490	Other restrictions of fund balance	61 507	-	936	317 460
3000	TOTAL FUND BALANCES	<u>61 507</u>	<u>-</u>	<u>936</u>	<u>361 083</u>
4000	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 66 596</u>	<u>\$ 30 169</u>	<u>\$ 2 463</u>	<u>\$ 471 231</u>

See independent auditors' report.

EXHIBIT H-1
PAGE 1 OF 2

244	255	263	272	410	429	458
VOCATIONAL EDUCATION	TITLE II, PART A TRAINING	TITLE III, BILINGUAL ESL	MEDICAID ADMIN. CLAIM MAC	TEXTBOOK ALLOTMENT	READ TO SUCCEED	CHAMBER STUBBLEFIELD LEARNING CENTER
\$ 60	\$ 1 591	\$ -	\$ 828	\$ 45	\$ 6 851	\$ 535 956
524	2 675	458	-	-	2 535	-
-	-	-	-	-	-	2 157
-	-	-	-	-	-	-
<u>\$ 584</u>	<u>\$ 4 266</u>	<u>\$ 458</u>	<u>\$ 828</u>	<u>\$ 45</u>	<u>\$ 9 386</u>	<u>\$ 538 113</u>
\$ 584	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1 722
-	-	-	-	-	-	-
-	-	458	-	-	-	-
<u>584</u>	<u>-</u>	<u>458</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1 722</u>
-	-	-	-	-	-	-
-	4 266	-	828	45	9 386	536 391
-	4 266	-	828	45	9 386	536 391
<u>\$ 584</u>	<u>\$ 4 266</u>	<u>\$ 458</u>	<u>\$ 828</u>	<u>\$ 45</u>	<u>\$ 9 386</u>	<u>\$ 538 113</u>

HUDSON INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS - CONTINUED
 August 31, 2017

EXHIBIT H-1
 PAGE 2 OF 2

DATA CONTROL CODES		459 STUBBLEFIELD LEARNING CENTER	SPECIAL REVENUE FUNDS (SEE EXHIBIT C-1)
	ASSETS		
1110	Cash and cash equivalents	\$ 255 927	\$ 1 244 885
1242	Due from other governments	-	89 401
1290	Other receivables	-	2 157
1300	Inventories	-	43 623
1000	TOTAL ASSETS	<u>\$ 255 927</u>	<u>\$ 1 380 066</u>
	LIABILITIES AND FUND BALANCES		
	Liabilities:		
2110	Accounts payable	\$ 1 536	\$ 77 772
2160	Accrued wages payable	-	51 426
2170	Due to other funds	-	22 035
2000	TOTAL LIABILITIES	<u>1 536</u>	<u>151 233</u>
	Fund Balances:		
	Restricted Fund Balances:		
3410	Nonspendable - Inventory	-	43 623
3490	Other restrictions of fund balance	254 391	1 185 210
3000	TOTAL FUND BALANCES	<u>254 391</u>	<u>1 228 833</u>
4000	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 255 927</u>	<u>\$ 1 380 066</u>

See independent auditors' report.

HUDSON INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 For the Year Ended August 31, 2017

DATA CONTROL CODES		211	224	225	240
		ESEA TITLE I	IDEA - PART B FORMULA	IDEA PART B PRESCHOOL	CHILD NUTRITION
Revenues:					
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ 512 046
5800	State program revenues	-	-	-	38 123
5900	Federal program revenues	<u>511 743</u>	<u>564 069</u>	<u>10 747</u>	<u>1 112 562</u>
5020	TOTAL REVENUES	<u>511 743</u>	<u>564 069</u>	<u>10 747</u>	<u>1 662 731</u>
Expenditures:					
Current:					
0011	Instruction	167 837	285 939	10 942	-
0013	Curriculum and instructional staff development	174 441	-	-	-
0023	School leadership	-	-	-	-
0031	Guidance, counseling and evaluation services	76 830	257 477	-	-
0032	Social work services	71 319	-	-	-
0033	Health services	-	-	-	-
0034	Student transportation	5 519	-	-	-
0035	Food services	-	-	-	1 647 114
0041	General administration	-	-	-	700
0051	Plant maintenance and operations	-	-	-	-
0052	Security and monitoring services	-	-	-	-
6030	TOTAL EXPENDITURES	<u>495 946</u>	<u>543 416</u>	<u>10 942</u>	<u>1 647 814</u>
1100	EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURES	<u>15 797</u>	<u>20 653</u>	<u>(195)</u>	<u>14 917</u>
Other Financing Sources:					
7915	Transfers in	-	-	20	824
8911	Transfers out	<u>(617)</u>	<u>(20 653)</u>	<u>-</u>	<u>-</u>
	TOTAL OTHER FINANCING SOURCES	<u>(617)</u>	<u>(20 653)</u>	<u>20</u>	<u>824</u>
1200	NET CHANGE IN FUND BALANCES	15 180	-	(175)	15 741
0100	Fund balance - Beginning	<u>46 327</u>	<u>-</u>	<u>1 111</u>	<u>345 342</u>
3000	FUND BALANCE - ENDING	<u>\$ 61 507</u>	<u>\$ -</u>	<u>\$ 936</u>	<u>\$ 361 083</u>

See independent auditors' report.

244	255	263	272	410	429	458
VOCATIONAL EDUCATION	TITLE II, PART A TRAINING	TITLE III, BILINGUAL ESL	MEDICAID ADMIN. CLAIM MAC	TEXTBOOK ALLOTMENT	READ TO SUCCEED	CHAMBER STUBBLEFIELD LEARNING CENTER
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 78 867
-	-	-	-	175 388	78 016	-
<u>28 456</u>	<u>13 345</u>	<u>18 707</u>	<u>2 479</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>28 456</u>	<u>13 345</u>	<u>18 707</u>	<u>2 479</u>	<u>175 388</u>	<u>78 016</u>	<u>78 867</u>
27 205	7 584	18 707	-	175 388	69 056	-
-	5 761	-	-	-	-	-
1 960	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	2 479	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	11 362
-	-	-	-	-	-	33 158
-	-	-	-	-	-	-
<u>29 165</u>	<u>13 345</u>	<u>18 707</u>	<u>2 479</u>	<u>175 388</u>	<u>69 056</u>	<u>44 520</u>
<u>(709)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8 960</u>	<u>34 347</u>
709	-	-	-	-	-	-
-	-	-	-	-	(2 535)	-
<u>709</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2 535)</u>	<u>-</u>
-	-	-	-	-	6 425	34 347
-	4 266	-	828	45	2 961	502 044
\$ -	\$ 4 266	\$ -	\$ 828	\$ 45	\$ 9 386	\$ 536 391

HUDSON INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS - CONTINUED
 For the Year Ended August 31, 2017

EXHIBIT H-2
 PAGE 2 OF 2

DATA CONTROL CODES		459 STUBBLEFIELD LEARNING CENTER	SPECIAL REVENUE FUNDS (SEE EXHIBIT C-3)
	Revenues:		
5700	Local and intermediate sources	\$ 583 884	\$ 1 174 797
5800	State program revenues	27 449	318 976
5900	Federal program revenues	<u>-</u>	<u>2 262 108</u>
5020	TOTAL REVENUES	<u>611 333</u>	<u>3 755 881</u>
	Expenditures:		
	Current:		
0011	Instruction	305 402	1 068 060
0013	Curriculum and instructional staff development	-	180 202
0023	School leadership	164 645	166 605
0031	Guidance, counseling and evaluation services	-	334 307
0032	Social work services	71 640	142 959
0033	Health services	-	2 479
0034	Student transportation	1 000	6 519
0035	Food services	-	1 647 114
0041	General administration	1 000	13 062
0051	Plant maintenance and operations	45 356	78 514
0052	Security and monitoring services	<u>1 091</u>	<u>1 091</u>
6030	TOTAL EXPENDITURES	<u>590 134</u>	<u>3 640 912</u>
1100	EXCESS (DEFICIENCY) REVENUE OVER EXPENDITURES	<u>21 199</u>	<u>114 969</u>
	Other Financing Sources:		
7915	Transfers in	-	1 553
8911	Transfers out	<u>(7 725)</u>	<u>(31 530)</u>
	TOTAL OTHER FINANCING SOURCES	<u>(7 725)</u>	<u>(29 977)</u>
1200	NET CHANGE IN FUND BALANCES	13 474	84 992
0100	Fund balance - Beginning	<u>240 917</u>	<u>1 143 841</u>
3000	FUND BALANCE - ENDING	<u>\$ 254 391</u>	<u>\$ 1 228 833</u>

See independent auditors' report.

REQUIRED TEA SCHEDULES

HUDSON INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 Fiscal Year Ended August 31, 2017

LAST 10 YEARS ENDED AUGUST 31,	(1) (2) TAX RATES		(3) ASSESSED/APPRaisal VALUE FOR SCHOOL TAX PURPOSES
	MAINTENANCE	DEBT SERVICE	
2008 and prior years	Various	Various	Various
2009	1.035700	0.100300	\$ 287 429 516
2010	1.040000	0.200000	\$ 324 574 274
2011	1.040000	0.200000	\$ 358 225 081
2012	1.170000	0.070000	\$ 360 928 226
2013	1.170000	0.070000	\$ 376 974 662
2014	1.170000	0.070000	\$ 408 148 710
2015	1.170000	0.090000	\$ 449 876 613
2016	1.170000	0.110000	\$ 439 239 531
2017 (School year under audit)	1.170000	0.110000	\$ 455 752 578
TOTALS			

See independent auditors' report.

EXHIBIT J-1

(10) BEGINNING BALANCE 09/01/2016	(20) CURRENT YEAR'S TOTAL LEVY	(31) MAINTENANCE COLLECTIONS	(32) DEBT SERVICE COLLECTIONS	(40) ENTIRE YEAR'S ADJUSTMENTS	(50) ENDING BALANCE 08/31/2017
\$ 34 317	\$ -	\$ 2 645	\$ 728	\$ (11 151)	\$ 19 890
6 063	-	145	28	(9)	5 881
7 735	-	262	51	73	7 495
9 584	-	507	30	112	9 159
13 521	-	1 735	102	44	11 728
20 382	-	5 058	303	199	15 220
28 363	-	7 180	430	(1 034)	19 719
44 831	-	9 110	699	(2 535)	32 487
101 450	-	42 466	3 990	(8 055)	46 939
-	5 833 633	5 178 978	486 695	(51 849)	116 002
<u>\$ 266 246</u>	<u>\$ 5 833 633</u>	<u>\$ 5 248 086</u>	<u>\$ 493 048</u>	<u>\$ (74 205)</u>	<u>\$ 284 540</u>

HUDSON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
For the Year Ended August 31, 2017

EXHIBIT J-4

DATA CONTROL CODES	1	2	3	4	
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	VARIANCE POSITIVE (NEGATIVE)	
Revenues:					
5700	Local and intermediate sources	\$ 614 075	\$ 482 075	\$ 512 046	\$ 29 971
5800	State program revenues	36 500	35 000	38 123	3 123
5900	Federal program revenues	<u>1 081 147</u>	<u>1 060 550</u>	<u>1 112 562</u>	<u>52 012</u>
5020	TOTAL REVENUES	<u>1 731 722</u>	<u>1 577 625</u>	<u>1 662 731</u>	<u>85 106</u>
Expenditures:					
Current:					
Support Services - Student:					
0035	Food services	1 688 419	1 868 419	1 647 114	221 305
0041	General administration	<u>700</u>	<u>700</u>	<u>700</u>	<u>-</u>
6030	TOTAL EXPENDITURES	<u>1 689 119</u>	<u>1 869 119</u>	<u>1 647 814</u>	<u>221 305</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES					
		<u>42 603</u>	<u>(291 494)</u>	<u>14 917</u>	<u>306 411</u>
Other Financing Sources:					
7915	Transfer in	<u>-</u>	<u>-</u>	<u>824</u>	<u>-</u>
	TOTAL OTHER FINANCING SOURCES	<u>-</u>	<u>-</u>	<u>824</u>	<u>-</u>
1200	NET CHANGE IN FUND BALANCE	42 603	(291 494)	15 741	306 411
0100	Fund balance - Beginning	<u>345 342</u>	<u>345 342</u>	<u>345 342</u>	<u>-</u>
3000	FUND BALANCE - ENDING	<u>\$ 387 945</u>	<u>\$ 53 848</u>	<u>\$ 361 083</u>	<u>\$ 306 411</u>

See independent auditors' report.

HUDSON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
For the Year Ended August 31, 2017

EXHIBIT J-5

DATA CONTROL CODES	1	2	3	4	
	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL AMOUNTS	VARIANCE POSITIVE (NEGATIVE)	
Revenues:					
5700	Local and intermediate sources	\$ 490 872	\$ 490 872	\$ 505 829	\$ 14 957
5800	State program revenues	540 372	540 372	853 745	313 373
5020	TOTAL REVENUES	<u>1 031 244</u>	<u>1 031 244</u>	<u>1 359 574</u>	<u>328 330</u>
Expenditures:					
Debt Service:					
0071	Long-term debt	1 475 656	1 730 727	1 517 820	212 907
6030	TOTAL EXPENDITURES	<u>1 475 656</u>	<u>1 730 727</u>	<u>1 517 820</u>	<u>212 907</u>
1200	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(444 412)</u>	<u>(699 483)</u>	<u>(158 246)</u>	<u>541 237</u>
Other Financing Sources and Uses:					
7911	Bond proceeds	-	-	3 690 987	3 690 987
7916	Prepaid interest on bond issue	-	-	307 905	307 905
7915	Transfer in	-	-	1 237 015	1 237 015
8911	Transfer out	-	-	(1 479 224)	(1 479 224)
8949	Other uses - Payments to escrow	-	-	(3 956 737)	(3 956 737)
	TOTAL OTHER FINANCING SOURCES AND USES	<u>-</u>	<u>-</u>	<u>(200 054)</u>	<u>(200 054)</u>
	NET CHANGE IN FUND BALANCES	(444 412)	(699 483)	(358 300)	341 183
0100	Fund balance - Beginning	<u>895 730</u>	<u>895 730</u>	<u>895 730</u>	<u>-</u>
3000	FUND BALANCE - ENDING	<u>\$ 451 318</u>	<u>\$ 196 247</u>	<u>\$ 537 430</u>	<u>\$ 341 183</u>

See independent auditors' report.

FEDERAL AWARDS SECTION

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

Board of Trustees
Hudson Independent School District
Lufkin, Texas

Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hudson Independent School District as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the basic financial statements and have issued our report thereon dated December 14, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
December 14, 2017

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

Board of Trustees
Hudson Independent School District
Lufkin, Texas

Members of the Board:

Report on Compliance for Each Major Federal Program

We have audited Hudson Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Hudson Independent School District's major federal programs for the year ended August 31, 2017. Hudson Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control Over Compliance

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

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

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

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


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
December 14, 2017

HUDSON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2017

EXHIBIT K-1

FEDERAL GRANTOR/PASS-THROUGH GRANTOR PROGRAM OR CLUSTER TITLE	FEDERAL CFDA NUMBER	PASS- THROUGH ENTITY IDENTIFYING NUMBER	EXPENDITURES
U.S. Department of Agriculture:			
Passed through State Department of Education:			
National School Breakfast Program	10.553	71401301	\$ 266 794
National School Lunch Program	10.555	71301301	736 998
USDA Commodities	10.565	N/A	<u>108 770</u>
TOTAL PASS THROUGH STATE DEPARTMENT OF EDUCATION			<u>1 112 562</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>1 112 562</u>
U.S. Department of Education:			
Passed through State Department of Education:			
ESEA Title I Part A - Improving Basic Programs	84.010A	17610101003902	511 743
IDEA - Part B, Formula	84.027	17660001003902	564 069
Vocational Edu. - Carl Perkins Basic Grant	84.048A	17420006003902	28 456
IDEA - Part B, Preschool	84.173	17661001003902	10 747
ESEA Title III, Part A	84.365	17671001003902	18 707
ESEA Title II, Part A - Teacher and Principal Training	84.367	17694501003902	<u>13 345</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>1 147 067</u>
TOTAL EXPENDITURE OF FEDERAL AWARDS			<u>\$ 2 259 629</u>
RECONCILIATION TO FEDERAL REVENUE PER C-2			
TOTAL EXPENDITURE OF FEDERAL AWARDS			\$ 2 259 629
Other Federal Programs:			
Rural Education Achievement Grant	84.358A		-
Medicare Reimbursement (MAC) Program	93.778		2 479
School Health and Related Services	93.990		<u>199 195</u>
TOTAL OTHER FEDERAL PROGRAMS			<u>201 674</u>
TOTAL FEDERAL REVENUE PER EXHIBIT C-2			<u>\$ 2 461 303</u>

HUDSON INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended August 31, 2017

1. For all federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The governmental fund types are accounted for using a current financial resources measurement focus. All federal grant funds were accounted for in a Special Revenue Fund which is a governmental fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the governmental fund types, and agency funds. The basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on general long-term debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3 Uniform Guidance Compliance Statement - Provisional 6/97.

HUDSON INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS, QUESTIONED COSTS AND CORRECTIVE ACTION
 For the Year Ended August 31, 2017

A. Summary of the Auditor's Results

Type of report on financial statements	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	___ Yes <u>X</u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ Yes <u>X</u> None reported
Internal control over major programs:	
Material weakness(es) identified?	___ Yes <u>X</u> No
Significant deficiency(ies) identified that are not considered to be material weaknesses?	___ Yes <u>X</u> None reported
Noncompliance which is material to the basic financial statement	___ Yes <u>X</u> None
Type of report on compliance with major programs:	<u>Unmodified</u>
Findings and questioned costs for Federal awards as defined in Section 501(a), Uniform Guidance	None
Dollar threshold considered between Type A and Type B Federal programs:	<u>\$750,000</u>
Low-risk auditee statement	The District was classified as a low-risk auditee in the context of Uniform Guidance
Major Federal programs	CFDA 84.010 Title I Part A

B. Findings related to the financial statements which are required to be reported in Accordance with Generally Accepted Auditing Standards.

C. Findings and Questioned Costs for Federal Award

NONE

Corrective Action Plan

NONE

HUDSON INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended August 31, 2017

Findings/Recommendation	Current Status	Management's Explanation if Not Implemented
2016-01: Expenditures exceeding budget in debt service function	Cleared	

HUDSON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED
SCHOOL FIRST INDICATORS
As of August 31, 2017

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.	\$ 449 713
SF11	Net Pension Assets (1920) at fiscal year-end.	\$ -
SF12	Net Pension Liabilities (2540) at fiscal year-end.	\$ 4 825 781
SF13	Pension Expense (6147) at fiscal year-end.	\$ -