

**HALLSVILLE  
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2015

## Introductory Section

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Hallsville Independent School District  
Annual Financial Report  
For The Year Ended August 31, 2015

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Hallsville Independent School District  
 Annual Financial Report  
 For The Year Ended August 31, 2015

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CERTIFICATE OF BOARD

Hallsville Independent School District  
Name of School District

Harrison  
County

102-904  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) \_\_\_\_\_approved \_\_\_\_\_disapproved for the year ended August 31, 2015, at a meeting of the board of trustees of such school district on the \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

(Signatures are on file with Texas Education Agency.)

\_\_\_\_\_  
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)

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## Financial Section

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# KAREN A. JACKS & ASSOCIATES, P.C.

Certified Public Accountants

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## Independent Auditors' Report

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

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Hallsville Independent School District ("the District") as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

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

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

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

### **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hallsville Independent School District as of August 31, 2015, and the respective changes in financial

position, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Emphasis of Matter**

### *Change in Accounting Principle*

As described in Note A to the financial statements, in 2015, Hallsville Independent School District adopted new accounting guidance, Government Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*, and GASB Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date -- an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability and schedule of District pension contributions identified as Required Supplementary Information in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hallsville Independent School District's basic financial statements. The introductory section and combining nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 8, 2015 on our consideration of Hallsville Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hallsville Independent School District's internal control over financial reporting and compliance.

*Karen A. Jacks & Associates, P.C.*

Karen A. Jacks & Associates, P.C.

Longview, Texas  
December 8, 2015

## **HALLSVILLE INDEPENDENT SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

In this section of the Annual Financial and Compliance Report, we, the managers of Hallsville Independent School District (the District), discuss and analyze the District's financial performance for the fiscal year ended August 31, 2015. Please read it in conjunction with the independent auditors' report on page 9, and the District's Basic Financial Statements, which begin on page 18.

#### **FINANCIAL HIGHLIGHTS**

- i The District's net position increased by \$2.6 million as a result of this year's operations.
- i During the year, the District's property tax revenues for governmental programs represented 60% of all revenue.
- i Total cost of all of the District's programs increased by \$2.1 million over last year.
- i The General Fund ended the year with a fund balance of \$9.2 million, some \$0.9 million more than the beginning fund balance of \$8.3 million.
- i The resources available for appropriation were \$1.1 million more than budgeted for the General Fund.
- i The expenditures were \$0.2 million less than budgeted for the General Fund.
- i The District refinanced one of its bond issues to obtain a lower interest rate. This change resulted in a net present value savings of \$100 thousand.

#### **USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 18 and 19). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 20) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For government activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (starting on page 25) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The section labeled Other Supplementary Information contains data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

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

### ***The Statement of Net Position and the Statement of Activities***

The analysis of the District's overall financial condition and operations begins on page 18. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These statements apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

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

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

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

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

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

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

## **The District as Trustee**

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

The District is the trustee, or fiduciary, for money raised by student activities and administrative personnel. These fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 24. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

- i Net position of the District's governmental activities decreased in total from \$45.8 million to \$45.7 million. However, the net change was comprised of a \$2.6 million increase resulting from current year operations and a \$2.7 million decrease resulting from a prior period adjustment required to recognize the District's net pension obligation as of August 31, 2014, in connection with the implementation of GASB Statement No. 68. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – decreased from \$3.8 million to \$3.1 million at August 31, 2015. A portion of that decrease is also attributable to the implementation of GASB Statement No. 68 and recognition of the District's net pension liability.

The District's total expenses of \$52 million were funded by charges for services totaling \$2.9 million, operating grants of \$6.9 million, and general revenues of \$44.7 million. General revenues consist principally of state aid and contributions of \$10.6 million and tax revenue of \$32.9 million.

**Table I**  
**Hallsville Independent School District**

**NET POSITION**  
in thousands

	Governmental Activities		% Change
	2015	2014	
Current and other assets	\$ 17,063	\$ 15,351	11.2%
Capital assets	118,266	121,387	-2.6%
Total assets	<u>135,329</u>	<u>136,738</u>	-1.0%
Deferred outflow related to loss on defeasance of debt	331	57	480.7%
Deferred outflow related to pensions	790	-	100.0%
Total deferred outflows	<u>1,121</u>	<u>57</u>	
Long-term liabilities	84,908	86,405	-1.7%
Other liabilities	5,098	4,589	11.1%
Total liabilities	<u>90,006</u>	<u>90,994</u>	-1.1%
Deferred inflow related to pensions	<u>730</u>	<u>-</u>	100.0%
Net position:			
Net investment in capital assets	41,004	40,679	0.8%
Restricted	1,579	1,278	23.6%
Unrestricted	3,131	3,844	-18.5%
Total net position	<u>\$ 45,714</u>	<u>\$ 45,801</u>	-0.2%

**Table II**  
**Hallsville Independent School District**

**CHANGES IN NET POSITION**  
in thousands

	Governmental Activities		% Change
	2015	2014	
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 2,991	\$ 2,476	20.8%
Operating grants and contributions	6,956	6,543	6.3%
General revenues:			
Maintenance and operations taxes	24,860	23,934	3.9%
Debt service taxes	8,104	7,985	1.5%
State aid - formula grants	10,698	10,816	-1.1%
Investment earnings (losses)	32	(22)	245.5%
Miscellaneous	1,098	716	53.4%
Total Revenues	<u>54,739</u>	<u>52,448</u>	4.4%
<b>Expenses:</b>			
Instruction, curriculum and media services	26,810	25,319	5.9%
Instructional and school leadership	3,364	3,197	5.2%
Student support services	4,006	4,020	-0.3%
Child nutrition	1,725	1,568	10.0%
Cocurricular activities	2,382	2,362	0.8%
General administration	1,430	1,397	2.4%
Plant maintenance, security and data processing	6,614	6,243	5.9%
Community services	129	132	-2.3%
Debt services	4,210	4,500	-6.4%
Other intergovernmental charges	1,454	1,327	9.6%
Total Expenses	<u>52,124</u>	<u>50,065</u>	4.1%
Increase in net position	2,615	2,383	9.7%
Net position at Beginning	45,801	42,512	
Prior period adjustment	(2,702)	906	
Net position at Beginning - As Restated	43,099	43,418	-0.7%
Net position at Ending	<u>\$ 45,714</u>	<u>\$ 45,801</u>	-0.2%

The District's total revenues increased by \$2.3 million over last year. This was primarily the result of \$1 million in increased combined property taxes.

The net cost of all governmental activities this year was \$52 million. However, as shown in the Statement of Activities on page 19, the amount that our taxpayers ultimately financed for these activities through District taxes was \$32.9 million since some of the costs were paid by State and federal funding (\$17.6 million).

**THE DISTRICT'S FUNDS**

As the District completed the year, its governmental funds (as presented in the balance sheet on page 20) reported a combined fund balance of \$10.7 million, which increased by \$1.1 million over last year. \$100 thousand of the net increase is due to refunding certain outstanding bonds and \$108 thousand due to the sale of District land. General Fund balance increased by \$0.9 million and the Debt Service Fund increased by \$186 thousand.

The Board of Trustees revised the District's budget during the year. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved to reflect the actual beginning balances (versus the amounts we estimated in August 2014). The second category involved amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs. The third category involved changes in state program revenues and local tax revenues.

The District's General Fund Balance of \$9.2 million reported on page 22 differs from the General Fund's budgetary fund balance of \$7.8 million reported in the budgetary comparison schedule on page 47, primarily due to increased property taxes, State funding and operational savings in the District.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At the end of 2015, the District had \$118.3 million invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration and maintenance.

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

### **Debt**

The District has \$82.5 million in general obligation debt at coupon interest rates ranging from 2.5% to 5.97% outstanding at year-end. The District's general obligation bonds carried the highest possible rating, according to national rating agencies.

More detailed information about the District's long-term liabilities is presented in Note F to the financial statements.

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

The District's elected and appointed officials considered many factors when setting the fiscal year 2016 budget and tax rates. One of those factors is appraised and taxable property values. These values were considered in setting the tax rate. Another factor was the change in state funding promulgated by the actions of the state's 84<sup>th</sup> legislative session. A new constitutional amendment allows for higher exempted homestead values, thus lowering taxable values on residential property. Legislators and state agencies will determine the amount of state aid to compensate for the loss of local tax revenues.

Additional factors were taken into account when adopting the General Fund budget for 2016. The District will continue to use its revenue to finance programs we currently offer. Hallsville's Virtual High School successfully completed its first full year of operation in August of 2015 and will expand its course offerings for the 2015-16 school year. Currently, enrollment in the HVHS has doubled from the prior year. The District plans to re-open the former Hallsville Middle School building for the 2016-2017 school year, so costs will be incurred during the 2015-16 year to ready that building for students. The opening of this facility allows the district to continue growing without having to build additional facilities. Considering these factors, the District's budgetary General Fund Balance is expected to increase by around \$4,000 by the close of FY2016.

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

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

## Basic Financial Statements

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**  
 STATEMENT OF NET POSITION  
 AUGUST 31, 2015

Data Control Codes	1	Governmental Activities
<b>ASSETS:</b>		
1110	Cash and Cash Equivalents	\$ 10,538,464
1120	Current Investments	3,847,628
1225	Property Taxes Receivable (Net)	1,449,151
1240	Due from Other Governments	1,055,363
1290	Other Receivables (Net)	20,216
1300	Inventories	114,599
1410	Unrealized Expenses	37,504
Capital Assets:		
1510	Land	4,759,235
1520	Buildings and Improvements, Net	111,833,285
1530	Furniture and Equipment, Net	1,673,251
1000	Total Assets	<u>135,328,696</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
	Deferred Outflow Related to Loss on Defeasance of Debt	331,057
1705	Deferred Outflow Related to Pensions	789,780
1700	Total Deferred Outflows of Resources	<u>1,120,837</u>
<b>LIABILITIES:</b>		
2110	Accounts Payable	426,993
2140	Interest Payable	186,059
2165	Accrued Liabilities	3,519,782
2177	Due to Fiduciary	1,110
2180	Due to Other Governments	659,342
2300	Unearned Revenue	304,530
Noncurrent Liabilities:		
2501	Due Within One Year	4,430,000
2502	Due in More Than One Year	78,093,532
2540	Net Pension Liability	2,384,766
2000	Total Liabilities	<u>90,006,114</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
2605	Deferred Inflow Related to Pensions	729,507
2600	Total Deferred Inflows of Resources	<u>729,507</u>
<b>NET POSITION:</b>		
3200	Net Investment in Capital Assets	41,004,490
Restricted For:		
3820	Federal and State Programs	321,555
3850	Debt Service	637,108
3860	Capital Projects	427
3870	Campus Activities	384,205
3890	Other Purposes	235,563
3900	Unrestricted	3,130,564
3000	Total Net Position	<u>\$ 45,713,912</u>

The accompanying notes are an integral part of this statement.

## HALLSVILLE INDEPENDENT SCHOOL DISTRICT

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Governmental Activities		
	Governmental Activities:					
11	Instruction	\$ 25,877,676	\$ 1,334,846	\$ 4,517,241	\$ (20,025,589)	
12	Instructional Resources and Media Services	533,901	108,953	22,046	(402,902)	
13	Curriculum and Staff Development	398,612	--	112,980	(285,632)	
21	Instructional Leadership	1,156,547	159,490	116,406	(880,651)	
23	School Leadership	2,207,367	--	116,770	(2,090,597)	
31	Guidance, Counseling, & Evaluation Services	1,457,770	556,132	215,186	(686,452)	
32	Social Work Services	85,045	--	4,745	(80,300)	
33	Health Services	368,713	--	21,073	(347,640)	
34	Student Transportation	2,093,833	--	95,913	(1,997,920)	
35	Food Service	1,725,503	667,492	1,103,361	45,350	
36	Cocurricular/Extracurricular Activities	2,381,988	163,926	47,629	(2,170,433)	
41	General Administration	1,429,627	--	49,860	(1,379,767)	
51	Facilities Maintenance and Operations	5,246,779	288	111,850	(5,134,641)	
52	Security and Monitoring Services	517,578	--	29,137	(488,441)	
53	Data Processing Services	850,319	--	40,297	(810,022)	
61	Community Services	129,536	--	9,434	(120,102)	
72	Interest on Long-term Debt	4,098,025	--	--	(4,098,025)	
73	Bond Issuance Costs and Fees	112,131	--	--	(112,131)	
81	Capital Outlay	8,164	--	--	(8,164)	
93	Payments Related to Shared Services Arrangements	893,641	--	342,387	(551,254)	
99	Other Intergovernmental Charges	551,697	--	--	(551,697)	
TG	Total Governmental Activities	<u>52,124,452</u>	<u>2,991,127</u>	<u>6,956,315</u>	<u>(42,177,010)</u>	
TP	Total Primary Government	<u>\$ 52,124,452</u>	<u>\$ 2,991,127</u>	<u>\$ 6,956,315</u>	<u>(42,177,010)</u>	
	General Revenues:					
MT	Property Taxes, Levied for General Purposes				24,860,076	
DT	Property Taxes, Levied for Debt Service				8,103,889	
IE	Investment Earnings				31,836	
GC	Grants and Contributions Not Restricted to Specific Programs				10,698,153	
MI	Miscellaneous				1,097,761	
TR	Total General Revenues				<u>44,791,715</u>	
CN	Change in Net Position				2,614,705	
NB	Net Position - Beginning				45,801,157	
PA	Prior Period Adjustment				(2,701,950)	
	Net Position - Beginning, as Restated				43,099,207	
NE	Net Position - Ending				<u>\$ 45,713,912</u>	

The accompanying notes are an integral part of this statement.

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2015

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds	
<b>ASSETS:</b>					
1110	Cash and Cash Equivalents	\$ 8,593,991	\$ 855,013	\$ 1,089,459	\$ 10,538,463
1120	Current Investments	3,847,628	--	--	3,847,628
1225	Taxes Receivable, Net	1,146,549	302,602	--	1,449,151
1240	Due from Other Governments	549,225	19,860	486,278	1,055,363
1260	Due from Other Funds	527,459	--	--	527,459
1290	Other Receivables	--	--	20,216	20,216
1300	Inventories	68,774	--	45,825	114,599
1410	Unrealized Expenditures	37,504	--	--	37,504
1000	Total Assets	<u>\$ 14,771,130</u>	<u>\$ 1,177,475</u>	<u>\$ 1,641,778</u>	<u>\$ 17,590,383</u>
<b>LIABILITIES:</b>					
Current Liabilities:					
2110	Accounts Payable	\$ 287,613	\$ --	\$ 139,380	\$ 426,993
2120	Short-Term Debt Payable	1,873,030	222,732	--	2,095,762
2150	Payroll Deductions & Withholdings	537	--	--	537
2160	Accrued Wages Payable	1,357,947	--	65,536	1,423,483
2170	Due to Other Funds	1,110	131,576	395,883	528,569
2180	Due to Other Governments	659,342	--	--	659,342
2300	Unearned Revenue	205,301	--	99,229	304,530
2000	Total Liabilities	<u>4,384,880</u>	<u>354,308</u>	<u>700,028</u>	<u>5,439,216</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>					
	Deferred Revenue - Property Taxes	1,146,549	302,602	--	1,449,151
2600	Total Deferred Inflows of Resources	<u>1,146,549</u>	<u>302,602</u>	<u>--</u>	<u>1,449,151</u>
<b>FUND BALANCES:</b>					
Nonspendable Fund Balances:					
3410	Inventories	68,774	--	27,844	96,618
3430	Prepaid Items	37,504	--	--	37,504
Restricted Fund Balances:					
3450	Federal/State Funds Grant Restrictions	--	--	293,711	293,711
3470	Capital Acquisitions & Contractual Obligations	--	--	427	427
3480	Retirement of Long-Term Debt	--	520,565	--	520,565
3490	Other Restrictions of Fund Balance	--	--	235,563	235,563
Committed Fund Balances:					
3545	Other Committed Fund Balance	1,193,400	--	384,205	1,577,605
3600	Unassigned	7,940,023	--	--	7,940,023
3000	Total Fund Balances	<u>9,239,701</u>	<u>520,565</u>	<u>941,750</u>	<u>10,702,016</u>
4000	Total Liabilities, Deferred Inflow of Resources and Fund Balances	<u>\$ 14,771,130</u>	<u>\$ 1,177,475</u>	<u>\$ 1,641,778</u>	<u>\$ 17,590,383</u>

The accompanying notes are an integral part of this statement.

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**  
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION  
 AUGUST 31, 2015

Total fund balances - governmental funds balance sheet	\$ 10,702,016
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.	118,265,771
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	1,449,151
Payables for bond principal which are not due in the current period are not reported in the funds.	(82,130,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(186,059)
Payables for contracts which are not due in the current period are not reported in the funds.	(393,532)
The deferred loss on defeasance of debt is not reported in the funds.	331,057
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(2,384,766)
Deferred Resource Inflows related to TRS are not reported in the funds.	(729,507)
Deferred Resource Outflows related to TRS are not reported in the funds.	789,780
Rounding difference	<u>1</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 45,713,912</u>

The accompanying notes are an integral part of this statement.

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

## IN FUND BALANCES - GOVERNMENTAL FUNDS

FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Governmental Funds	98 Total Governmental Funds
<b>REVENUES:</b>				
5700 Local and Intermediate Sources	\$ 25,760,710	\$ 8,107,154	\$ 2,863,670	\$ 36,731,534
5800 State Program Revenues	12,613,139	--	739,533	13,352,672
5900 Federal Program Revenues	1,548,243	--	3,053,685	4,601,928
5020 Total Revenues	<u>39,922,092</u>	<u>8,107,154</u>	<u>6,656,888</u>	<u>54,686,134</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	21,565,001	--	2,443,012	24,008,013
0012 Instructional Resources and Media Services	466,262	--	32,913	499,175
0013 Curriculum and Staff Development	282,349	--	113,558	395,907
0021 Instructional Leadership	821,376	--	275,737	1,097,113
0023 School Leadership	2,014,360	--	--	2,014,360
0031 Guidance, Counseling, & Evaluation Services	698,731	--	706,079	1,404,810
0032 Social Work Services	77,687	--	--	77,687
0033 Health Services	344,185	--	--	344,185
0034 Student Transportation	1,900,711	--	--	1,900,711
0035 Food Service	--	--	1,780,251	1,780,251
0036 Cocurricular/Extracurricular Activities	1,421,554	--	892,199	2,313,753
0041 General Administration	1,333,576	--	2,890	1,336,466
0051 Facilities Maintenance and Operations	5,147,138	--	277	5,147,415
0052 Security and Monitoring Services	471,166	--	--	471,166
0053 Data Processing Services	785,487	--	--	785,487
0061 Community Services	66,631	--	56,996	123,627
0071 Principal on Long-term Debt	450,000	3,820,000	--	4,270,000
0072 Interest on Long-term Debt	152,733	4,100,643	--	4,253,376
0073 Bond Issuance Costs and Fees	1,700	110,431	--	112,131
0081 Capital Outlay	--	--	25,113	25,113
0093 Payments to Shared Service Arrangements	551,254	--	342,387	893,641
0099 Other Intergovernmental Charges	551,697	--	--	551,697
6030 Total Expenditures	<u>39,103,598</u>	<u>8,031,074</u>	<u>6,671,412</u>	<u>53,806,084</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	<u>818,494</u>	<u>76,080</u>	<u>(14,524)</u>	<u>880,050</u>
Other Financing Sources and (Uses):				
7911 Capital-Related Debt Issued (Regular Bonds)	--	5,610,000	--	5,610,000
7912 Sale of Real or Personal Property	108,062	--	--	108,062
7915 Transfers In	1,107	--	--	1,107
7916 Premium or Discount on Issuance of Bonds	--	100,044	--	100,044
8911 Transfers Out	--	--	(1,107)	(1,107)
8949 Other Uses	--	(5,599,613)	--	(5,599,613)
7080 Total Other Financing Sources and (Uses)	<u>109,169</u>	<u>110,431</u>	<u>(1,107)</u>	<u>218,493</u>
1200 Net Change in Fund Balances	<u>927,663</u>	<u>186,511</u>	<u>(15,631)</u>	<u>1,098,543</u>
0100 Fund Balances - Beginning	8,312,038	334,054	957,381	9,603,473
3000 Fund Balances - Ending	<u>\$ 9,239,701</u>	<u>\$ 520,565</u>	<u>\$ 941,750</u>	<u>\$ 10,702,016</u>

The accompanying notes are an integral part of this statement.

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2015

Net change in fund balances - total governmental funds	\$ 1,098,543
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	424,581
The depreciation of capital assets used in governmental activities is not reported in the funds.	(3,545,756)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(55,039)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	4,270,000
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	5,225,000
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	274,417
(Increase) decrease in accrued interest from beginning of period to end of period.	158,921
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(5,610,000)
Bond premiums are reported in the funds but not in the SOA.	(3,419)
Pension contributions made after the measurement date but in current FY were de-expended and reduced NPL.	597,887
The District's share of the unrecognized deferred inflows and outflows for TRS had to be amortized.	150,022
Pension expense relating to GASB 68 is recorded in the SOA but not in the funds.	(370,453)
Rounding	<u>1</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 2,614,705</u>

The accompanying notes are an integral part of this statement.

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**

## STATEMENT OF FIDUCIARY NET POSITION

## FIDUCIARY FUNDS

AUGUST 31, 2015

Data Control Codes		Agency Funds
	<b>ASSETS:</b>	
1110	Cash and Cash Equivalents	\$ 41,061
1260	Due from Other Funds	1,110
1000	Total Assets	<u>42,171</u>
	<b>LIABILITIES:</b>	
	Current Liabilities:	
2190	Due to Student Groups	\$ 42,171
2000	Total Liabilities	<u>42,171</u>
	<b>NET POSITION:</b>	
3000	Total Net Position	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2015

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

The District reports the following major governmental funds:

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

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

In addition, the District reports the following fund types:

Special Revenue Funds: The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2015

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

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

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

b. Measurement Focus, Basis of Accounting

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

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

3. Financial Statement Amounts

a. Property Taxes

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

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature. The allowance for uncollectible property taxes at August 31, 2015 is \$31,147.

b. Inventories and Prepaid Items

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

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**  
 NOTES TO THE FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED AUGUST 31, 2015

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

c. Capital Assets

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

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

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

d. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has three items qualifying for reporting in this category. The first is the TRS pension liability for contributions made after the measurement date and prior to the District's fiscal year end. For the District, this period is from September 1, 2014 through August 31, 2015 in the amount of \$597,887. The second is also from the TRS pension reporting and is a deferred charge in actuarial assumptions in the pension liability. The deferred outflow for this charge is \$155,012. The third charge is for the differences between expected and actual economic experience in the TRS pension plan for a total of \$36,881.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items qualifying for reporting in this category. The District recorded the proportionate share of the deferred inflow for the difference between the projected and actual investment earnings in the TRS pension plan in the amount of \$728,882. The second was due to contributions and the proportionate share of contributions in the TRS pension plan in the amount of \$625.

e. Receivable and Payable Balances

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

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

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation.

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2015

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

g. Use of Estimates

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

h. Data Control Codes

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

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

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

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

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

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

The District's Board of Trustees has adopted a resolution which sets a policy to maintain a total fund balance in the District's General Fund of at least 20% of total annual operating expenditures in that fund and an unassigned fund balance of at least 15% of total annual operating expenditures. The District was in compliance with its fund balance policies as of August 31, 2015.

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

j. Net Position Flow Assumption

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

k. Fund Balance Flow Assumptions

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

4. Pensions

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

At August 31, 2015 the District reported the following:

Net Pension Asset	\$	--
Net Pension Liability	\$	2,384,766

5. New Accounting Standards Adopted

In fiscal year 2015, the District adopted the following new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

- Statement No. 67, *Financial Reporting for Pension Plans - an amendment of GASB Statement No. 25*
- Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27*
- Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an amendment of GASB Statement No. 68.*

a. Statement No. 67 establishes financial reporting standards, but not funding or budgetary standards, for state and local government defined benefit pension plans and defined contribution pension plans that are administered through trusts or equivalent arrangements (Pension Trusts) in which:

- 1) Contributions from employers and nonemployer contributing entities to the pension plan and earnings on those contributions are irrevocable.
- 2) Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- 3) Pension plan assets are legally protected from the creditors of employers, nonemployer

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**  
NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED AUGUST 31, 2015

contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

For defined benefit pension plans, this Statement establishes standards of financial reporting for separately issued financial reports and presentation as pension trust funds in the financial statements of another government, and specifies the required approach to measuring the pension liability of employers and any nonemployer contributing entities for benefits provided through the pension plan (the net pension liability), about which certain information is required to be presented. Distinctions are made regarding the particular presentation requirements depending upon the type of pension plan administered. For defined contribution plans, the Statement provides specific note disclosure requirements.

The adoption of Statement No. 67 has no impact on the District's financial statements.

- b. Statement No. 68 establishes standards of accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements using criteria detailed above in the description of Statement No. 67. This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans within the scope of the Statement.

The requirements of Statement No. 68 apply to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts or equivalent arrangements as described above, and to the financial statements of state and local governmental nonemployer contributing entities that have a legal obligation to make contributions directly to such pension plans. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to pensions. Note disclosure and RSI requirements about pensions also are addressed. For defined benefit pension plans, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

The adoption of Statement No. 68 has no impact on the District's governmental fund financial statements, which continue to report expenditures in the contribution amount determined legislatively for the TRS plan. The calculation of pension contributions is unaffected by the change. However, the adoption has resulted in the restatement of the District's beginning net position for the fiscal year 2014 government-wide financial statements to reflect the reporting of net pension liability and deferred inflows of resources and deferred outflows of resources for its qualified pension plan and the recognition of pension expense in accordance with the provisions of the Statement.

- c. Statement No. 71 amends Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Since the measurement date of the pension plan was different than the District's fiscal year-end, the effects from the District's reported contributions to the plan subsequent to the respective measurement date of the plan as an increase in deferred outflow of resources and a decrease in net position.

**B. Compliance and Accountability**

**1. Finance-Related Legal and Contractual Provisions**

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

# HALLSVILLE INDEPENDENT SCHOOL DISTRICT

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2015

Violation

Expenditures exceeded budget appropriations in five functions of the General Fund, and debt service function in the Debt Service Fund.

Action Taken

District administrators will more closely monitor expenditures in relation to budget and will submit budget amendments to the Board of Trustees for approval in a timely manner, as needed.

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

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

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

C. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2015, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$798,898 and the bank balance was \$1,662,851. The District's cash deposits during the year ended August 31, 2015, were not entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name. The District's cash deposits at August 31, 2015 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

In addition, the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Depository: Community Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$6,005,630.
- c. The highest combined balances of cash, savings and time deposit accounts amounted to \$11,858,310 and occurred during the month of January, 2015.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$750,000.

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

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The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the District did not adhere to the requirements of the Act or investment practices of the District in that the Superintendent appointed a District employee to become an investment officer. The District's local policy states that the Superintendent and the Business Manager or other person designated by Board resolution shall serve as the investment officers of the District.

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

The District's investments at August 31, 2015 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
Lone Star Investment Pool	Avg 41 days	\$ 11,602,720
TexPool	Avg 41 days	12,147
TexSTAR	Avg 41 days	4,932
Certificate of Deposit	120 days	<u>2,003,279</u>
Total on deposit in investment pools		\$ 13,623,078
Less amount reported as cash equivalent on financial statements		<u>(9,775,450)</u>
Total Investments		<u>\$ 3,847,628</u>

3. Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

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

At August 31, 2015, the District's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

<u>Investment</u>	<u>S &amp; P Rating</u>
Lone Star Investment Pool - Corporate Overnight Plus	AAA
TexPool	AAA <sub>m</sub>
TexSTAR	AAA <sub>m</sub>

b. Custodial Credit Risk

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

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

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

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c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

Public Funds Investment Pools

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

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

TexSTAR

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

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TexSTAR is to maintain a stable \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured.

Lone Star

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

TexPool

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

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## D. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 4,759,234	\$ --	\$ --	\$ 4,759,234
Total capital assets not being depreciated	<u>4,759,234</u>	<u>--</u>	<u>--</u>	<u>4,759,234</u>
Capital assets being depreciated:				
Buildings and improvements	140,827,831	133,516	--	140,961,347
Furniture and equipment	4,873,522	258,657	--	5,132,179
Vehicles	4,738,553	32,408	52,056	4,718,905
Total capital assets being depreciated	<u>150,439,906</u>	<u>424,581</u>	<u>52,056</u>	<u>150,812,431</u>
Less accumulated depreciation for:				
Buildings and improvements	(25,902,106)	(3,225,956)	--	(29,128,062)
Furniture and equipment	(3,267,121)	(282,327)	--	(3,549,448)
Vehicles	(4,642,968)	(37,473)	(52,056)	(4,628,385)
Total accumulated depreciation	<u>(33,812,195)</u>	<u>(3,545,756)</u>	<u>(52,056)</u>	<u>(37,305,895)</u>
Total capital assets being depreciated, net	<u>116,627,711</u>	<u>(3,121,175)</u>	<u>--</u>	<u>113,506,536</u>
Governmental activities capital assets, net	<u>\$ 121,386,945</u>	<u>\$ (3,121,175)</u>	<u>\$ --</u>	<u>\$ 118,265,770</u>

Depreciation was charged to functions as follows:

Instruction	\$ 2,193,329
Instructional Resources and Media Services	38,238
Curriculum and Staff Development	4,039
Instructional Leadership	82,413
School Leadership	216,496
Guidance, Counseling, & Evaluation Services	70,635
Social Work Services	8,266
Health Services	35,067
Student Transportation	205,898
Food Services	69,105
Extracurricular Activities	88,341
General Administration	99,732
Plant Maintenance and Operations	307,103
Security and Monitoring Services	50,758
Data Processing Services	69,919
Community Services	6,417
	<u>\$ 3,545,756</u>

## E. Interfund Balances and Activities

### 1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2015, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 395,883	Short-term loans
General Fund	Debt Service Fund	131,576	Short-term loans
Agency Fund	General Fund	1,110	Short-term loans
	Total	<u>\$ 528,569</u>	

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

2. Transfers To and From Other Funds

Transfers to and from other funds at August 31, 2015, consisted of the following:

Transfers From	Transfers To	Amount	Reason
Other Governmental Fund	General Fund	\$ 1,107	Supplement other funds sources
	Total	\$ <u>1,107</u>	

F. Long-Term Obligations

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

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2015, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
Unlimited tax & refunding bonds	\$ 80,790,000	\$ 5,610,000	\$ 4,270,000	\$ 82,130,000	\$ 4,430,000
Limited tax refunding bonds	5,225,000	--	5,225,000	--	--
Unamortized bond premium	390,113	100,044	96,625	393,532	--
Total governmental activities	\$ <u>86,405,113</u>	\$ <u>5,710,044</u>	\$ <u>9,591,625</u>	\$ <u>82,523,532</u>	\$ <u>4,430,000</u>

2. Bonds payable

Bonds payable currently outstanding are as follows:

	Interest Rates	Maturity Date	Amount
Series 2010A Unlimited Tax School Building Bonds	2.50 - 4.00%	4/27/2016	\$ 2,760,000
Series 2010B Unlimited Tax School Building Bonds	4.272 - 5.966%	2/15/2030	71,725,000
Series 2013 Unlimited Tax Refunding Bonds	2.00 - 4.00%	2/15/2017	2,485,000
Series 2014 Unlimited Tax Refunding Bonds	3.00 - 3.65%	2/15/2025	5,160,000
			\$ <u>82,130,000</u>

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3. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2015, are as follows:

<u>Year Ending August 31.</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2016	\$ 4,430,000	\$ 4,099,970	\$ 8,529,970
2017	4,575,000	3,926,869	8,501,869
2018	4,785,000	3,737,742	8,522,742
2019	4,930,000	3,526,562	8,456,562
2020	5,080,000	3,302,213	8,382,213
2021-2025	28,045,000	12,570,395	40,615,395
2026-2030	30,285,000	4,608,757	34,893,757
Totals	<u>\$ 82,130,000</u>	<u>\$ 35,772,508</u>	<u>\$ 117,902,508</u>

4. Advance Refunding of Debt

During the year ended August 31, 2015, the District issued \$5,610,000 for tax refunding bonds to provide resources to purchase U.S. Government State and Local Governmental Series securities that were placed in an escrow account for the purpose of generating resources for all future debt service payments of \$5,225,000 in tax maintenance notes. As a result, certain maturities of the refunded series were considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$385,000. This amount is being netted against the new debt and amortized over the life of the old debt. This advance refunding resulted in an economic gain of \$118,062 and was undertaken to reduce future interest payments.

G. Risk Management

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2015, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

H. Pension Plan

1. Plan Description

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

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

2. Pension Plan Fiduciary Net Position

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

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3. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes, including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature, as noted in the plan description in (1.) above.

4. Contributions

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

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

	<b><u>Contribution Rates</u></b>	
	<u>2014</u>	<u>2015</u>
Member	6.4%	6.7%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2014 Employer Contributions	\$ 226,347	
District's 2014 Member Contributions	\$ 1,598,516	
NECE 2014 On-Behalf Contributions to District	\$ 1,491,551	

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

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.

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

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

5. Actuarial Assumptions

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

Valuation Date	August 31, 2014
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 Years
Asset Valuation Method	5 Year Market Value
Discount Rate	8%
Long-term Expected Rate of Return*	8%
Salary Increases*	4.25% to 7.25%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.5%

\* Includes inflation of 3%

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

6. Discount Rate

The discount rate used to measure the total pension liability was 8%. There was no change in the discount rate since the previous fiscal 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 expected 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

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adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2014 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-term Expected Portfolio Real Rate of Return *
<b>Global Equity</b>			
U.S.	18%	7.0%	1.4%
Non-U.S. Developed	13%	7.3%	1.1%
Emerging Markets	9%	8.1%	0.9%
Directional Hedge Funds	4%	5.4%	0.2%
Private Equity	13%	9.2%	1.4%
<b>Stable Value</b>			
U.S. Treasuries	11%	2.9%	0.3%
Absolute Return	0%	4.0%	0.0%
Stable Value Hedge Funds	4%	5.2%	0.2%
Cash	1%	2.0%	0.0%
<b>Real Return</b>			
Global Inflat. Linked Bonds	3%	3.1%	0.0%
Real Assets	16%	7.3%	1.5%
Energy & Natural Resources	3%	8.8%	0.3%
Commodities	0%	3.4%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	8.9%	0.4%
Alpha			1.0%
<b>Total</b>	<u>100%</u>		<u>8.7%</u>

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

### 7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability if the discount rate used was 1 percentage point less and 1 percentage point greater than the discount rate that was used (8%) in measuring the 2014 net pension liability.

	1% Decrease 7%	Current Discount Rate 8%	1% Increase 9%
District's proportionate share of the net pension liability	\$ 4,261,432	\$ 2,384,766	\$ 981,369
Plan net pension liability (in millions from TRS CAFR)	\$ 47,737	\$ 26,717	\$ 10,998

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

At August 31, 2015, the District reported a liability of \$2,384,766 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:

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District's proportionate share of the collective net pension liability	\$ 2,384,766
State's proportionate share of the net pension liability associated with the District	<u>15,748,323</u>
Total	<u>\$ 18,133,089</u>

The net pension liability was measured as of August 31, 2014 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2013 through August 31, 2014.

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

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

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

For the year ended August 31, 2015, the District recognized pension expense of \$1,455,903 and revenue of \$1,455,903 for support provided by the State.

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

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Differences between expected and actual economic experience	\$ 36,881	\$ --
Changes in actuarial assumptions	155,012	--
Difference between projected and actual investment earnings	--	728,882
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	--	625
District contributions paid to TRS subsequent to the measurement date	<u>597,887</u>	<u>          </u>
Total	<u>\$ 789,780</u>	<u>\$ 729,507</u>

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

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

Year Ending August 31		
2016	\$	(149,954)
2017	\$	(149,954)
2018	\$	(149,954)
2019	\$	(149,954)
2020	\$	32,267
Thereafter	\$	29,935

I. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

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

b. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas contribution rate was 1% for fiscal years 2015 and 2014, and 0.5% for fiscal year 2013. The active public school employee contributions rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2015, 2014 and 2013. For the years ended August 31, 2015, 2014, and 2013, the State's contributions to TRS-Care were \$270,573, \$249,727, and \$245,775, respectively, the active member contributions were \$175,876, \$162,323, and \$159,754, respectively, and the District's contributions were \$148,812, \$137,350, and \$135,176, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2015, 2014, and 2013, the subsidy payments received by TRS-Care on behalf of the District were \$81,175, \$67,730, and \$67,435, respectively.

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

J. Employee Health Care Coverage

During the year ended August 31, 2015, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$225 per month per employee to the Plan. The District pays an additional \$100 per month for bus drivers and an additional \$37 per month for bus monitors. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the licensed insurer is renewable September 1, 2015, and terms of coverage and premium costs are included in the contractual provisions.

K. Commitments and Contingencies

1. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. 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 basic financial statements for such contingencies.

2. Litigation

On April 18, 2011, the Harrison Central Appraisal District (CAD) lost its appeal of a lawsuit challenging the assessment of ad valorem taxes on natural gas stored in a reservoir located within the District's boundaries. As a result, the District has finalized settlement agreements with all but two of the affected taxpayers.

The two remaining affected taxpayers, who paid approximately \$3 million of property taxes to the District for the tax years involved in the lawsuit, have neither accepted nor rejected the District's bona fide settlement offer of \$1.8 million made in November, 2011, and have not prosecuted their claims since then. The District has recorded a contingent liability in the amount of its settlement offer, i.e., \$1.8 million, which is reported in the accompanying Balance Sheet - Governmental Funds as Short-Term Debt Payable and in the Statement of Net Position as Accrued Liabilities. According to legal counsel, there is substantial case law to support the position that, even if the companies were to sue and obtain judgments against the District, they could not legally place a lien on District property or funds.

L. Shared Services Arrangements

Shared Services Arrangement - Fiscal Agent

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

<u>Member Districts</u>	<u>Expenditures</u>
Elysian Fields ISD	\$ 338,728
Harleton ISD	264,510
Karnack ISD	48,544
Waskom ISD	264,510
Hallsville ISD	1,241,210
Total	<u>\$ 2,157,502</u>

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

M. Subsequent Events

Management has evaluated subsequent events through December 8, 2015, the date on which the financial statements were available to be issued.

N. Workers' Compensation Coverage

The District joined together with other districts in the East Texas area to form the East Texas Education Insurance Association, a public entity risk pool currently operating a workers' compensation risk management and insurance program for various member school districts. During the 2014-2015 school year, the District paid a fixed cost in the amount of \$62,920 for administration of claims, loss control, recordkeeping, and the cost of stop-loss insurance.

Total workers' compensation claims and loss funding sharing payments were \$86,113 for the year. The District may be required to pay and retains the risk of loss for workers' compensation claims up to its loss fund maximum. When and if other schools in the Association exceed their loss fund maximum, the District will be required to pay a percentage share of the excess. A reconciliation of claims activity for the past two fiscal years is provided below:

	Beginning Balance	Claims Incurred	Claims Paid	Ending Balance
Year ended August 31, 2015	\$ 254,589	\$ 82,698	\$ (86,113)	\$ 251,174
Year ended August 31, 2014	238,840	109,374	(93,625)	254,589

O. Other Restrictions/Assignments of Fund Balance

Other restrictions of fund balance consist of the following:

Other Governmental Funds:

Restricted for Special Education	\$ <u>235,563</u>
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Other commitments of fund balance consist of the following:

General Fund:

Committed for settlement of property tax litigation	\$ 1,143,400
Committed for insurance deductibles	50,000
	\$ <u>1,193,400</u>

Other Governmental Funds:

Committed for campus activity funds	\$ <u>384,205</u>
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P. Prior Period Adjustments

The District recorded a net prior period adjustment of (\$2,701,950) to restate the beginning net pension liability of the TRS pension plan, in accordance with GASB Statement No. 68. The restatement was required to record the beginning net pension liability, contributions made after the measurement date and during the District's 2014 fiscal year. The adjustment resulted in a decrease in previously reported net position.

## Required Supplementary Information

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

# HALLSVILLE INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2015

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
<b>REVENUES:</b>					
5700	Local and Intermediate Sources	\$ 24,924,777	\$ 24,984,435	\$ 25,760,710	\$ 776,275
5800	State Program Revenues	12,312,883	12,312,883	12,613,139	300,256
5900	Federal Program Revenues	1,458,000	1,523,000	1,548,243	25,243
5020	Total Revenues	<u>38,695,660</u>	<u>38,820,318</u>	<u>39,922,092</u>	<u>1,101,774</u>
<b>EXPENDITURES:</b>					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	21,790,173	21,928,276	21,565,001	363,275
0012	Instructional Resources and Media Services	470,173	470,173	466,262	3,911
0013	Curriculum and Staff Development	237,216	273,046	282,349	(9,303)
	Total Instruction & Instr. Related Services	<u>22,497,562</u>	<u>22,671,495</u>	<u>22,313,612</u>	<u>357,883</u>
Instructional and School Leadership:					
0021	Instructional Leadership	900,680	884,580	821,376	63,204
0023	School Leadership	2,011,484	2,015,000	2,014,360	640
	Total Instructional & School Leadership	<u>2,912,164</u>	<u>2,899,580</u>	<u>2,835,736</u>	<u>63,844</u>
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	705,192	698,792	698,731	61
0032	Social Work Services	77,698	77,698	77,687	11
0033	Health Services	336,854	340,674	344,185	(3,511)
0034	Student (Pupil) Transportation	1,789,729	1,939,729	1,900,711	39,018
0036	Cocurricular/Extracurricular Activities	1,203,848	1,415,282	1,421,554	(6,272)
	Total Support Services - Student (Pupil)	<u>4,113,320</u>	<u>4,472,175</u>	<u>4,442,868</u>	<u>29,307</u>
Administrative Support Services:					
0041	General Administration	1,396,317	1,367,517	1,333,576	33,941
	Total Administrative Support Services	<u>1,396,317</u>	<u>1,367,517</u>	<u>1,333,576</u>	<u>33,941</u>
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	4,781,825	5,155,010	5,147,138	7,872
0052	Security and Monitoring Services	472,030	471,100	471,166	(66)
0053	Data Processing Services	764,500	785,499	785,487	12
	Total Support Services - Nonstudent Based	<u>6,018,355</u>	<u>6,411,609</u>	<u>6,403,791</u>	<u>7,818</u>
Ancillary Services:					
0061	Community Services	70,641	66,641	66,631	10
	Total Ancillary Services	<u>70,641</u>	<u>66,641</u>	<u>66,631</u>	<u>10</u>
Debt Service:					
0071	Principal on Long-Term Debt	450,000	450,000	450,000	--
0072	Interest on Long-Term Debt	170,026	152,826	152,733	93
0073	Bond Issuance Costs and Fees	5,000	1,700	1,700	--
	Total Debt Service	<u>625,026</u>	<u>604,526</u>	<u>604,433</u>	<u>93</u>
Intergovernmental Charges:					
0093	Payments to Fiscal Agent/Member Dist.-SSA	510,334	294,834	551,254	(256,420)
0099	Other Intergovernmental Charges	551,697	551,697	551,697	--
	Total Intergovernmental Charges	<u>1,062,031</u>	<u>846,531</u>	<u>1,102,951</u>	<u>(256,420)</u>
6030	Total Expenditures	<u>38,695,415</u>	<u>39,340,074</u>	<u>39,103,598</u>	<u>236,476</u>

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**

GENERAL FUND  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED AUGUST 31, 2015

**EXHIBIT G-1**  
 Page 2 of 2

Data Control Codes	1	2	3	Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	<u>245</u>	<u>(519,756)</u>	<u>818,494</u>	<u>1,338,250</u>
Other Financing Sources (Uses):				
7912 Sale of Real or Personal Property	--	--	108,062	108,062
7915 Transfers In	<u>--</u>	<u>--</u>	<u>1,107</u>	<u>1,107</u>
7080 Total Other Financing Sources and (Uses)	<u>--</u>	<u>--</u>	<u>109,169</u>	<u>109,169</u>
1200 Net Change in Fund Balance	<u>245</u>	<u>(519,756)</u>	<u>927,663</u>	<u>1,447,419</u>
0100 Fund Balance - Beginning	<u>8,312,038</u>	<u>8,312,038</u>	<u>8,312,038</u>	--
3000 Fund Balance - Ending	<u>\$ 8,312,283</u>	<u>\$ 7,792,282</u>	<u>\$ 9,239,701</u>	<u>\$ 1,447,419</u>

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

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
District's proportion of the net pension liability (asset)	0.0089279%	--	--	--	--	--	--	--	--	--
District's proportionate share of the net pension liability (asset)	\$ 2,384,766	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
State's proportionate share of the net pension liability (asset) associated with the District	15,748,323	--	--	--	--	--	--	--	--	--
<b>Total</b>	<b>\$ 18,133,089</b>	<b>\$ --</b>								
District's covered-employee payroll	\$ 24,972,750	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	9.55%	--	--	--	--	--	--	--	--	--
Plan fiduciary net position as a percentage of the total pension liability	83.25%	--	--	--	--	--	--	--	--	--

Note: GASB Statement No. 68, Paragraph 81.2.a requires that the information on this schedule be data from the period corresponding with the period covered as of the TRS measurement date of August 31, 2014 - the period from September 1, 2013 - August 31, 2014.

Note: Only one year of data is presented in accordance with GASB Statement No. 68, Paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF DISTRICT CONTRIBUTIONS**  
**TEACHER RETIREMENT SYSTEM OF TEXAS**  
**LAST TEN FISCAL YEARS \***

	Fiscal Year									
	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Contractually required contribution	\$ 597,887	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Contributions in relation to the contractually required contribution	(597,887)	--	--	--	--	--	--	--	--	--
Contribution deficiency (excess)	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>
District's covered-employee payroll	\$ 27,057,260	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Contributions as a percentage of covered-employee payroll	2.21%	--	--	--	--	--	--	--	--	--

Note: GASB Statement No. 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2013 - August 31, 2014.

Note: Only one year of data is presented in accordance with GASB Statement No. 68, Paragraph 138. The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available timely. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

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## Combining Statements and Budget Comparisons as Supplementary Information

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

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**

COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2015

Data Control Codes	Special Revenue Funds	Capital Projects Fund <u>2010</u> Bond Fund	Total Nonmajor Governmental Funds (See Exhibit C-1)	
<b>ASSETS:</b>				
1110	Cash and Cash Equivalents	\$ 1,089,032	\$ 427	\$ 1,089,459
1240	Due from Other Governments	486,278	--	486,278
1290	Other Receivables	20,216	--	20,216
1300	Inventories	45,825	--	45,825
1000	Total Assets	<u>\$ 1,641,351</u>	<u>\$ 427</u>	<u>\$ 1,641,778</u>
<b>LIABILITIES:</b>				
Current Liabilities:				
2110	Accounts Payable	\$ 139,380	\$ --	\$ 139,380
2160	Accrued Wages Payable	65,536	--	65,536
2170	Due to Other Funds	395,883	--	395,883
2300	Unearned Revenue	99,229	--	99,229
2000	Total Liabilities	<u>700,028</u>	<u>--</u>	<u>700,028</u>
<b>FUND BALANCES:</b>				
Nonspendable Fund Balances:				
3410	Inventories	27,844	--	27,844
Restricted Fund Balances:				
3450	Federal/State Funds Grant Restrictions	293,711	--	293,711
3470	Capital Acquisitions & Contractual Obligations	--	427	427
3490	Other Restrictions of Fund Balance	235,563	--	235,563
Committed Fund Balances:				
3545	Other Committed Fund Balance	384,205	--	384,205
3000	Total Fund Balances	<u>941,323</u>	<u>427</u>	<u>941,750</u>
4000	Total Liabilities and Fund Balances	<u>\$ 1,641,351</u>	<u>\$ 427</u>	<u>\$ 1,641,778</u>

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes	Special Revenue Funds	Capital Projects Fund 2010 Bond Fund	Total Nonmajor Governmental Funds (See Exhibit C-2)
<b>REVENUES:</b>			
5700 Local and Intermediate Sources	\$ 2,863,643	\$ 27	\$ 2,863,670
5800 State Program Revenues	739,533	--	739,533
5900 Federal Program Revenues	3,053,685	--	3,053,685
5020 Total Revenues	<u>6,656,861</u>	<u>27</u>	<u>6,656,888</u>
<b>EXPENDITURES:</b>			
Current:			
0011 Instruction	2,443,012	--	2,443,012
0012 Instructional Resources and Media Services	32,913	--	32,913
0013 Curriculum and Staff Development	113,558	--	113,558
0021 Instructional Leadership	275,737	--	275,737
0031 Guidance, Counseling, & Evaluation Services	706,079	--	706,079
0035 Food Service	1,780,251	--	1,780,251
0036 Cocurricular/Extracurricular Activities	892,199	--	892,199
0041 General Administration	2,890	--	2,890
0051 Facilities Maintenance and Operations	277	--	277
0061 Community Services	56,996	--	56,996
0081 Capital Outlay	--	25,113	25,113
0093 Payments to Shared Service Arrangements	342,387	--	342,387
6030 Total Expenditures	<u>6,646,299</u>	<u>25,113</u>	<u>6,671,412</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>10,562</u>	<u>(25,086)</u>	<u>(14,524)</u>
Other Financing Sources and (Uses):			
8911 Transfers Out	<u>(1,107)</u>	--	<u>(1,107)</u>
7080 Total Other Financing Sources and (Uses)	<u>(1,107)</u>	--	<u>(1,107)</u>
1200 Net Change in Fund Balances	9,455	(25,086)	(15,631)
0100 Fund Balances - Beginning	931,868	25,513	957,381
3000 Fund Balances - Ending	<u>\$ 941,323</u>	<u>\$ 427</u>	<u>\$ 941,750</u>

# HALLSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

AUGUST 31, 2015

Data Control Codes		211 ESEA Title I Improving Basic Programs	240 National School Breakfast/Lunch Program	244 Career and Tech Basic Grant
<b>ASSETS:</b>				
1110	Cash and Cash Equivalents	\$ --	\$ 411,203	\$ --
1240	Due from Other Governments	177,110	32,547	384
1290	Other Receivables	--	20,216	--
1300	Inventories	--	45,825	--
1000	Total Assets	<u>\$ 177,110</u>	<u>\$ 509,791</u>	<u>\$ 384</u>
<b>LIABILITIES:</b>				
Current Liabilities:				
2110	Accounts Payable	\$ --	\$ 116,750	\$ --
2160	Accrued Wages Payable	29,912	5,416	--
2170	Due to Other Funds	147,198	--	384
2300	Unearned Revenue	--	66,070	--
2000	Total Liabilities	<u>177,110</u>	<u>188,236</u>	<u>384</u>
<b>FUND BALANCES:</b>				
Nonspendable Fund Balances:				
3410	Inventories	--	27,844	--
Restricted Fund Balances:				
3450	Federal/State Funds Grant Restrictions	--	293,711	--
3490	Other Restrictions of Fund Balance	--	--	--
Committed Fund Balances:				
3545	Other Committed Fund Balance	--	--	--
3000	Total Fund Balances	<u>--</u>	<u>321,555</u>	<u>--</u>
4000	Total Liabilities and Fund Balances	<u>\$ 177,110</u>	<u>\$ 509,791</u>	<u>\$ 384</u>

255 ESEA Title II Training & Recruiting	313 IDEA-B Formula	314 IDEA-B Preschool	410 State Textbook Fund	434 Supplemental Visually Impaired
\$ --	\$ --	\$ --	\$ 39,742	\$ 2,300
5,495	264,008	6,734	--	--
--	--	--	--	--
--	--	--	--	--
<u>5,495</u>	<u>264,008</u>	<u>6,734</u>	<u>39,742</u>	<u>2,300</u>
\$ --	\$ 7,547	\$ --	\$ 8,583	\$ 2,257
--	19,038	1,351	--	--
5,495	237,423	5,383	--	--
--	--	--	31,159	--
<u>5,495</u>	<u>264,008</u>	<u>6,734</u>	<u>39,742</u>	<u>2,257</u>
--	--	--	--	--
--	--	--	--	43
--	--	--	--	--
<u>5,495</u>	<u>264,008</u>	<u>6,734</u>	<u>39,742</u>	<u>2,300</u>

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**

COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 AUGUST 31, 2015

Data Control Codes	437 Special Education	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds (See Exhibit H-1)	
<b>ASSETS:</b>				
1110	Cash and Cash Equivalents	\$ 251,582	\$ 384,205	\$ 1,089,032
1240	Due from Other Governments	--	--	486,278
1290	Other Receivables	--	--	20,216
1300	Inventories	--	--	45,825
1000	Total Assets	<u>\$ 251,582</u>	<u>\$ 384,205</u>	<u>\$ 1,641,351</u>
<b>LIABILITIES:</b>				
Current Liabilities:				
2110	Accounts Payable	\$ 4,243	\$ --	\$ 139,380
2160	Accrued Wages Payable	9,819	--	65,536
2170	Due to Other Funds	--	--	395,883
2300	Unearned Revenue	2,000	--	99,229
2000	Total Liabilities	<u>16,062</u>	<u>--</u>	<u>700,028</u>
<b>FUND BALANCES:</b>				
Nonspendable Fund Balances:				
3410	Inventories	--	--	27,844
Restricted Fund Balances:				
3450	Federal/State Funds Grant Restrictions	--	--	293,711
3490	Other Restrictions of Fund Balance	235,520	--	235,563
Committed Fund Balances:				
3545	Other Committed Fund Balance	--	384,205	384,205
3000	Total Fund Balances	<u>235,520</u>	<u>384,205</u>	<u>941,323</u>
4000	Total Liabilities and Fund Balances	<u>\$ 251,582</u>	<u>\$ 384,205</u>	<u>\$ 1,641,351</u>

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# HALLSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes	211 ESEA Title I Improving Basic Programs	214 ESEA Title I Part D, Subpart 2 Delinquent Program	240 National School Breakfast/Lunch Program	244 Career and Tech Basic Grant
<b>REVENUES:</b>				
5700 Local and Intermediate Sources	\$ --	\$ --	\$ 666,908	\$ --
5800 State Program Revenues	--	--	11,495	--
5900 Federal Program Revenues	539,290	81,937	1,092,450	41,256
5020 Total Revenues	<u>539,290</u>	<u>81,937</u>	<u>1,770,853</u>	<u>41,256</u>
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	522,575	81,937	--	38,644
0012 Instructional Resources and Media Services	--	--	--	--
0013 Curriculum and Staff Development	1,000	--	--	435
0021 Instructional Leadership	10,316	--	--	199
0031 Guidance, Counseling, & Evaluation Services	--	--	--	1,978
0035 Food Service	--	--	1,780,251	--
0036 Cocurricular/Extracurricular Activities	--	--	--	--
0041 General Administration	--	--	--	--
0051 Facilities Maintenance and Operations	--	--	--	--
0061 Community Services	5,399	--	--	--
0093 Payments to Shared Service Arrangements	--	--	--	--
6030 Total Expenditures	<u>539,290</u>	<u>81,937</u>	<u>1,780,251</u>	<u>41,256</u>
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	--	--	(9,398)	--
Other Financing Sources and (Uses):				
8911 Transfers Out	--	--	--	--
7080 Total Other Financing Sources and (Uses)	--	--	--	--
1200 Net Change in Fund Balances	--	--	(9,398)	--
0100 Fund Balances - Beginning	--	--	330,953	--
3000 Fund Balances - Ending	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 321,555</u>	<u>\$ --</u>

255 ESEA Title II Training & Recruiting	289 Summer School LEP	313 IDEA-B Formula	314 IDEA-B Preschool	381 Adult Basic Education State
\$ --	\$ --	\$ --	\$ --	\$ --
--	--	--	--	1,262
<u>73,327</u>	<u>1,107</u>	<u>1,202,812</u>	<u>21,506</u>	<u>--</u>
<u>73,327</u>	<u>1,107</u>	<u>1,202,812</u>	<u>21,506</u>	<u>1,262</u>
--	--	627,507	21,506	1,262
--	--	--	--	--
73,327	--	35,430	--	--
--	--	55,651	--	--
--	--	138,947	--	--
--	--	--	--	--
--	--	--	--	--
--	--	2,890	--	--
--	--	--	--	--
--	--	--	--	--
--	--	342,387	--	--
<u>73,327</u>	<u>--</u>	<u>1,202,812</u>	<u>21,506</u>	<u>1,262</u>
--	1,107	--	--	--
--	(1,107)	--	--	--
--	(1,107)	--	--	--
--	--	--	--	--
\$ --	\$ --	\$ --	\$ --	\$ --

# HALLSVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes	410 State Textbook Fund	434 Supplemental Visually Impaired
<b>REVENUES:</b>		
5700 Local and Intermediate Sources	\$ --	\$ --
5800 State Program Revenues	673,478	6,300
5900 Federal Program Revenues	--	--
5020 Total Revenues	<u>673,478</u>	<u>6,300</u>
<b>EXPENDITURES:</b>		
Current:		
0011 Instruction	673,478	6,257
0012 Instructional Resources and Media Services	--	--
0013 Curriculum and Staff Development	--	--
0021 Instructional Leadership	--	--
0031 Guidance, Counseling, & Evaluation Services	--	--
0035 Food Service	--	--
0036 Cocurricular/Extracurricular Activities	--	--
0041 General Administration	--	--
0051 Facilities Maintenance and Operations	--	--
0061 Community Services	--	--
0093 Payments to Shared Service Arrangements	--	--
6030 Total Expenditures	<u>673,478</u>	<u>6,257</u>
1100 Excess (Deficiency) of Revenues Over (Under)		
1100 Expenditures	<u>--</u>	<u>43</u>
Other Financing Sources and (Uses):		
8911 Transfers Out	<u>--</u>	<u>--</u>
7080 Total Other Financing Sources and (Uses)	<u>--</u>	<u>--</u>
1200 Net Change in Fund Balances	<u>--</u>	<u>43</u>
0100 Fund Balances - Beginning	<u>--</u>	<u>--</u>
3000 Fund Balances - Ending	<u>\$ --</u>	<u>\$ 43</u>

437 Special Education	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds (See Exhibit H-2)
\$ 965,197	\$ 1,231,538	\$ 2,863,643
46,998	--	739,533
--	--	3,053,685
<u>1,012,195</u>	<u>1,231,538</u>	<u>6,656,861</u>
246,995	222,851	2,443,012
--	32,913	32,913
--	3,366	113,558
161,499	48,072	275,737
565,154	--	706,079
--	--	1,780,251
--	892,199	892,199
--	--	2,890
277	--	277
--	51,597	56,996
--	--	342,387
<u>973,925</u>	<u>1,250,998</u>	<u>6,646,299</u>
<u>38,270</u>	<u>(19,460)</u>	<u>10,562</u>
--	--	(1,107)
--	--	(1,107)
<u>38,270</u>	<u>(19,460)</u>	<u>9,455</u>
197,250	403,665	931,868
<u>\$ 235,520</u>	<u>\$ 384,205</u>	<u>\$ 941,323</u>



## Other Supplementary Information

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

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**

SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
 FOR THE YEAR ENDED AUGUST 31, 2015

Year Ended August 31	1 Tax Rates		2	3 Assessed/Appraised Value For School Tax Purposes	
	Maintenance	Debt Service			
2006 and Prior Years	\$ Various	\$ Various		\$	Various
2007	1.4445	.094			2,311,097,511
2008	1.32	.339			2,447,413,116
2009	1.04	.28			2,779,886,230
2010	1.04	.313			2,563,762,443
2011	1.04	.313			2,094,590,522
2012	1.04	.383			2,170,797,892
2013	1.04	.35			2,260,174,748
2014	1.04	.353			2,276,705,675
2015 (School Year Under Audit)	1.04	.343			2,386,180,356

1000 Totals

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

10 Beginning Balance 9/1/14	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/15
\$ 239,184	\$ --	\$ 23,883	\$ 2,359	\$ (18,011)	\$ 194,931
40,165	--	5,204	363	(1,778)	32,820
46,395	--	4,010	1,333	(1,835)	39,217
68,885	--	7,602	2,087	(2,938)	56,258
89,437	--	8,668	2,609	(5,126)	73,034
118,914	--	18,865	5,678	547	94,918
199,934	--	35,989	5,381	(7,234)	151,330
254,339	--	57,846	19,467	(12,633)	164,393
474,180	--	136,815	46,438	(83,216)	207,711
--	33,000,874	24,288,339	8,018,173	(228,676)	465,686
<u>\$ 1,531,433</u>	<u>\$ 33,000,874</u>	<u>\$ 24,587,221</u>	<u>\$ 8,103,888</u>	<u>\$ (360,900)</u>	<u>\$ 1,480,298</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

# HALLSVILLE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts			
		Original	Final	Actual	
<b>REVENUES:</b>					
5700	Local and Intermediate Sources	\$ 721,080	\$ 721,080	\$ 666,908	\$ (54,172)
5800	State Program Revenues	10,234	10,234	11,495	1,261
5900	Federal Program Revenues	983,643	983,643	1,092,450	108,807
5020	Total Revenues	<u>1,714,957</u>	<u>1,714,957</u>	<u>1,770,853</u>	<u>55,896</u>
<b>EXPENDITURES:</b>					
Current:					
Support Services - Student (Pupil):					
0035	Food Services	1,699,935	1,899,935	1,780,251	119,684
	Total Support Services - Student (Pupil)	<u>1,699,935</u>	<u>1,899,935</u>	<u>1,780,251</u>	<u>119,684</u>
6030	Total Expenditures	<u>1,699,935</u>	<u>1,899,935</u>	<u>1,780,251</u>	<u>119,684</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	15,022	(184,978)	(9,398)	175,580
1200	Net Change in Fund Balance	15,022	(184,978)	(9,398)	175,580
0100	Fund Balance - Beginning	330,953	330,953	330,953	--
3000	Fund Balance - Ending	<u>\$ 345,975</u>	<u>\$ 145,975</u>	<u>\$ 321,555</u>	<u>\$ 175,580</u>

# HALLSVILLE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

DEBT SERVICE FUND  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED AUGUST 31, 2015

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
<b>REVENUES:</b>					
5700	Local and Intermediate Sources	\$ 8,224,301	\$ 8,224,301	\$ 8,107,154	\$ (117,147)
5020	Total Revenues	<u>8,224,301</u>	<u>8,224,301</u>	<u>8,107,154</u>	<u>(117,147)</u>
<b>EXPENDITURES:</b>					
Debt Service:					
0071	Principal on Long-Term Debt	3,820,000	3,820,000	3,820,000	--
0072	Interest on Long-Term Debt	4,100,643	4,100,643	4,100,643	--
0073	Bond Issuance Costs and Fees	1,100	1,100	110,431	(109,331)
	Total Debt Service	<u>7,921,743</u>	<u>7,921,743</u>	<u>8,031,074</u>	<u>(109,331)</u>
6030	Total Expenditures	<u>7,921,743</u>	<u>7,921,743</u>	<u>8,031,074</u>	<u>(109,331)</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>302,558</u>	<u>302,558</u>	<u>76,080</u>	<u>(226,478)</u>
Other Financing Sources (Uses):					
7911	Capital-Related Debt Issued (Regular Bonds)	--	5,610,000	5,610,000	--
7916	Premium or Discount on Issuance of Bonds	--	62,159	100,044	37,885
8949	Other Uses	--	(5,599,613)	(5,599,613)	--
7080	Total Other Financing Sources and (Uses)	<u>--</u>	<u>72,546</u>	<u>110,431</u>	<u>37,885</u>
1200	Net Change in Fund Balance	<u>302,558</u>	<u>375,104</u>	<u>186,511</u>	<u>(188,593)</u>
0100	Fund Balance - Beginning	<u>334,054</u>	<u>334,054</u>	<u>334,054</u>	<u>--</u>
3000	Fund Balance - Ending	<u>\$ 636,612</u>	<u>\$ 709,158</u>	<u>\$ 520,565</u>	<u>\$ (188,593)</u>

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# KAREN A. JACKS & ASSOCIATES, P.C.

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

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

Members of the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hallsville Independent School District, as of and for the year ended August 31, 2015, and the related notes to the financial statements, which collectively comprise Hallsville Independent School District's basic financial statements, and have issued our report thereon dated December 8, 2015.

## Internal Control Over Financial Reporting

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

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2015-001 to be a material weakness.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hallsville Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a

direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed 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.

*Karen A. Jacks & Associates, P.C.*

Karen A. Jacks & Associates, P.C.

Longview, Texas  
December 8, 2015

# KAREN A. JACKS & ASSOCIATES, P.C.

Certified Public Accountants

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## Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133

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

Members of the Board of Trustees:

### **Report on Compliance for Each Major Federal Program**

We have audited the Hallsville Independent School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the Hallsville Independent School District's major federal programs for the year ended August 31, 2015. Hallsville Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### **Management's Responsibility**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on compliance for each of Hallsville Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hallsville Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

In our opinion, the Hallsville Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended August 31, 2015.

## Report on Internal Control Over Compliance

Management of the Hallsville Independent School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Hallsville Independent School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hallsville Independent School District's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *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 considered 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

*Karen A. Jacks & Associates, P.C.*

Karen A. Jacks & Associates, P.C.

Longview, Texas  
December 8, 2015

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? X Yes      No

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

Noncompliance material to financial statements noted?      Yes X No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified?      Yes X No

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

Type of auditors' report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of OMB Circular A-133?      Yes X No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010a	Title I, Part A - Improving Basic Programs
84.010a	Title I, Part D, Subpart 2, Delinquent Program
84.027	IDEA-B Formula
84.173	IDEA-B Preschool

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee?      Yes X No

B. Financial Statement Findings

Finding 2015-001:

Criteria:

A properly designed internal control structure provides for systems and procedures such that District employees, in the normal course of performing their assigned duties, will prevent, or detect

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

and correct misstatements of the District's financial data on a timely basis.

**Condition:**

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

**Cause:**

As reported in prior year Finding 2014-02, the District's business office has experienced vacancies and new hires in key positions over the past two years. Business office staff continue to work through the learning curve associated with new positions and have been provided with training and mentoring opportunities in an effort to develop appropriate reconciliation processes. While some reconciliation procedures were implemented during the year ended August 31, 2015, they were not implemented to the extent necessary to mitigate year-end adjustments proposed during the audit.

**Effect:**

Cash accounts were not fully reconciled at year-end, and interfund receivable and payable accounts were not in agreement between funds. Local, State, and federal revenues and receivables were not fully reconciled and adjusted to actual. Material audit adjustments were required to properly report the District's financial statements as of and for the year ended August 31, 2015.

**Recommendation:**

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

**C. Federal Award Findings and Questioned Costs**

NONE

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**  
**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Finding 2014-1:  <u>Condition:</u>            The District did not anticipate actual expenditures with sufficient accuracy and lead time to secure Board approval for the final budget amendment prior to the last day of the fiscal year. The final budget amendment for FY2014 was approved by the Board of Trustees on September 15, 2014.</p>	<p>The condition did not recur in the current year.</p>	
<p>Finding 2014-2:  <u>Condition:</u>            The District did not have a systematic and routine year-end closing process to insure that all material financial statement account balances are accurate and that all significant accounts are reconciled as necessary.</p>	<p>The condition recurred in the current year. See Finding 2015-001.</p>	<p>The District has increased its training and mentoring effort for key business office positions in an effort to develop appropriate reconciliation procedures. Some of these have been implemented into the current year under audit, however, not to the extent necessary to mitigate the additional adjustments.</p>

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**  
CORRECTIVE ACTION PLAN  
FOR THE YEAR ENDED AUGUST 31, 2015

The corrective action plan is the responsibility of the District's business manager, Trish Hall.

Finding 2015-001:

The District has increased its training and mentoring effort for key business office positions in an effort to develop appropriate reconciliation procedures.

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**FOR THE YEAR ENDED AUGUST 31, 2015**

**EXHIBIT K-1**

(1)	(2)	(2A)	(3)
Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U. S. DEPARTMENT OF EDUCATION</b>			
Passed Through State Department of Education:			
ESEA Title I Part A - Improving Basic Programs *	84.010a	15610101102904	\$ 539,290
ESEA Title I Part D, Subpart 2 *	84.010a	15610103102904	81,937
Total CFDA Number 84.010a			<u>621,227</u>
SSA IDEA-B Formula *	84.027	156600011029046600	1,202,568
SSA IDEA-B Formula *	84.027	166600011029046600	244
Total CFDA Number 84.027			<u>1,202,812</u>
Career and Technical - Basic Grant	84.048	15420006102904	40,872
Career and Technical - Basic Grant	84.048	16420006102904	384
Total CFDA Number 84.048			<u>41,256</u>
SSA IDEA-B Preschool *	84.173	156610011029046610	20,155
SSA IDEA-B Preschool *	84.173	166610011029046610	1,351
Total CFDA Number 84.173			<u>21,506</u>
ESEA Title II Part A - Teacher & Principal Training & Recruiting	84.367a	15694501102904	73,327
Total CFDA Number 84.367a			<u>73,327</u>
Summer School LEP	84.369A	69551402	1,107
Total Passed Through State Department of Education			<u>1,961,235</u>
Total U. S. Department of Education			<u>1,961,235</u>
<b>U. S. DEPARTMENT OF AGRICULTURE</b>			
Passed Through State Department of Education:			
School Breakfast Program *	10.553	00536	235,625
National School Lunch Program *	10.555	00536	749,258
National School Lunch Program (Non-cash) *	10.555	00536	107,567
Total CFDA Number 10.555			<u>856,825</u>
Total Passed Through State Department of Education			<u>1,092,450</u>
Total U. S. Department of Agriculture			<u>1,092,450</u>
<b>TOTAL EXPENDITURES OF FEDERAL AWARDS</b>			<u><u>\$ 3,053,685</u></u>

\* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**  
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 FOR THE YEAR ENDED AUGUST 31, 2015

Note A - Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Hallsville Independent School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

Note B - Reconciliation of Federal Revenues to Federal Expenditures

Federal revenues in the accompanying financial statements include federal source revenues which are not considered federal assistance for purposes of the Schedule of Expenditures of Federal Awards. A reconciliation follows:

Total Federal Expenditures, Exhibit K-1	\$	3,053,685
Other Federal Revenues:		
Build America Bonds - Interest Subsidy		1,241,700
School Health and Related Services (SHARS)		306,543
Total Federal Revenues, Exhibit C-2	\$	<u>4,601,928</u>

Note C - Subrecipients

The Hallsville ISD provided federal awards to subrecipients as follows:

<u>Program Title</u>		
IDEA-B Formula	\$	<u>342,387</u>

Note D - Food Distribution

Nonmonetary assistance is reported in the schedule at fair market value of commodities received and consumed. At August 31, 2015, the District had food commodities in inventory totaling \$17,981.

**HALLSVILLE INDEPENDENT SCHOOL DISTRICT**

SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS  
AS OF AUGUST 31, 2015

Data Control Codes		Responses
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds?	Yes
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts and laws related to local, state or federal funds?	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 governmental agencies?	Yes
SF8	Did the school district <u>not</u> receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	\$ --
SF11	Net Pension Assets (object 1920) at fiscal year-end.	\$ --
SF12	Net Pension Liabilities (object 2540) at fiscal year-end.	\$ 2,384,766
SF13	Pension Expense (object 6147) at fiscal year-end.	\$ 220,430

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