

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT FOR THE

YEAR ENDED AUGUST 31, 2016

Caver and Setser, Inc.
Certified Public Accountants

**HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2016**

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CERTIFICATE OF BOARD

Hughes Springs Independent School District
Name of School District

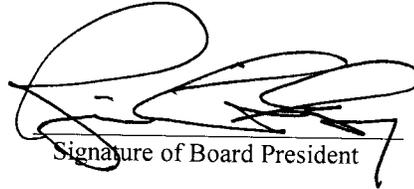
Cass
County

034-903
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) approved disapproved for the year ended August 31, 2016, at a meeting of the board of trustees of such school district on the 12th day of December, 2016.



Signature of Board Secretary



Signature of Board President

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

FINANCIAL SECTION





CAVER and SETSER, Inc.

Certified Public Accountants

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Member
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Texas Society of CPAs
Governmental Audit Quality Center

N. Preston Caver, CPA

Jalyn L. Setser, CPA

UNMODIFIED OPINIONS ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND
OTHER INFORMATION

Independent Auditor's Report

Board of Trustees
Hughes Springs Independent School District
871 Taylor St.
Hughes Springs, Texas 75656

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information for Hughes Springs Independent School District (the District) as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and pension information on pages 6-13 and 49-52 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 Hughes Springs Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements and agency funds financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Requirements by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2016, on our consideration of Hughes Springs 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hughes Springs Independent School District's internal control over financial reporting and compliance.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-3. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Caver and Setser, Inc.

CAVER and SETSER, Inc.
Certified Public Accountants

November 25, 2016

**Management's Discussion and Analysis
Hughes Springs Independent School District
For the Fiscal Year Ended August 31, 2016**

-UNAUDITED-

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Hughes Springs Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2016. Please read it in conjunction with the independent auditors' report on page 3, and the District's Basic Financial Statements which begin on page 15.

FINANCIAL HIGHLIGHTS

The District's Net Position decreased by \$47,567 as a result of this year's operations. Program revenues accounted for \$1,592,776 or 12.76% of total revenue, and general revenues accounted for \$10,889,080 or 87.24%.

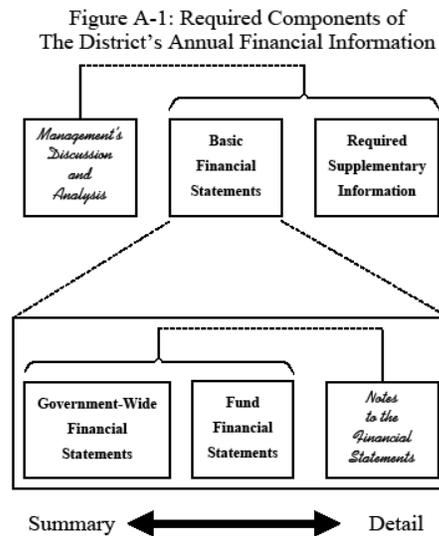
During the year, the District had expenses that were \$47,567 more than the \$12,481,856 generated in tax and other revenues for governmental programs (before special items). Total cost of all of the District's programs increased by \$914,483.

The general fund reported a positive fund balance of \$6,802,124.

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 15 and 16). 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 17) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. 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.



**Management's Discussion and Analysis
Hughes Springs Independent School District
For the Fiscal Year Ended August 31, 2016**

-UNAUDITED-

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

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 15. 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 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 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 them. The District's Net Position (the difference between assets plus deferred outflows and liabilities plus deferred inflows) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's Net Position are one indicator of whether its financial health is improving or deteriorating. To fully 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 District's activities are presented as:

Figure A-2: Major Features of the District's Government-Wide and Fund Financial Statements

Type of Statements	Fund Statements			
	Government-Wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire Agency's Governmental (except Fiduciary Funds) and the Agency's Component Units	The activities of the District that are not proprietary or fiduciary	Activities the District operates similar to private businesses: Print shop	Instances in which the District is the trustee or agent for someone else's resources
Required Financial Statements	*Statement of Net Position	*Balance Sheet	*Statement of Net Position	*Statement of Fiduciary Net Position
	*Statement of Activities	*Statement of revenues, expenditures and changes in fund balances	*Statement of revenues, expenditures and changes in fund balances *Statement of cash flows	*Statement of Changes in Fiduciary Net Position
Accounting basis And measurement Focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	All assets and liabilities, both financial and capital, short-term and long-term	Accrual accounting and economic resources focus.
Type of asset/liability information	All asset and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial and capital, short-term and long-term	All assets and liabilities, both short-term and long-term, the Agency's funds do not currently contain capital assets, but they can
Type of Inflow/outflow Information	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

Management's Discussion and Analysis
Hughes Springs Independent School District
For the Fiscal Year Ended August 31, 2016

-UNAUDITED-

Governmental activities – most of the District's basic services are reported here, including the 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 17 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 from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds—governmental and proprietary—use different accounting approaches.

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

Proprietary funds—the internal service funds report activities that provide supplies and services for the District's other programs and activities—such as the District's self-insurance programs.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements 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.

Our analysis focuses on the Net Position (Table I) and changes in Net Position (Table II) of the District's governmental activities.

Net Position of the District's governmental activities decreased from \$12,780,518 to \$12,732,951. 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 – were \$6,200,151 at August 31, 2016. This decrease in governmental Net Position was the result of the District's expenditures exceeding the revenues.

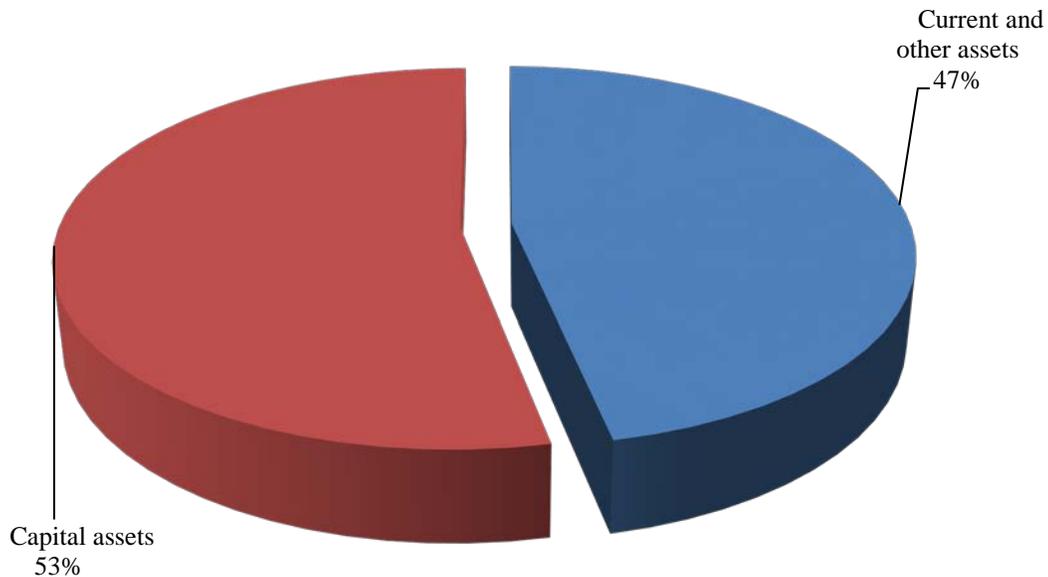
**Management's Discussion and Analysis
Hughes Springs Independent School District
For the Fiscal Year Ended August 31, 2016**

-UNAUDITED-

**Table I
Hughes Springs Independent School
District**

NET POSITION

	Governmental Activities 2015	Governmental Activities 2016
Current and other assets	\$7,393,039	\$7,654,364
Capital assets	8,881,272	8,743,585
Total assets	<u>16,274,311</u>	<u>16,397,949</u>
Deferred outflow of resources	222,011	1,204,388
Long-term liabilities	3,146,396	4,240,283
Other liabilities	352,808	482,542
Total liabilities	<u>3,499,204</u>	<u>4,722,825</u>
Deferred inflow of resources	216,600	146,561
Net Position:		
Invested in capital assets net of related debt	6,442,941	6,473,495
Restricted	51,414	59,305
Unrestricted	6,286,163	6,200,151
Total Net Position	<u>\$12,780,518</u>	<u>\$12,732,951</u>



**Management's Discussion and Analysis
Hughes Springs Independent School District
For the Fiscal Year Ended August 31, 2016**

-UNAUDITED-

**Table II
Hughes Springs Independent School
District**

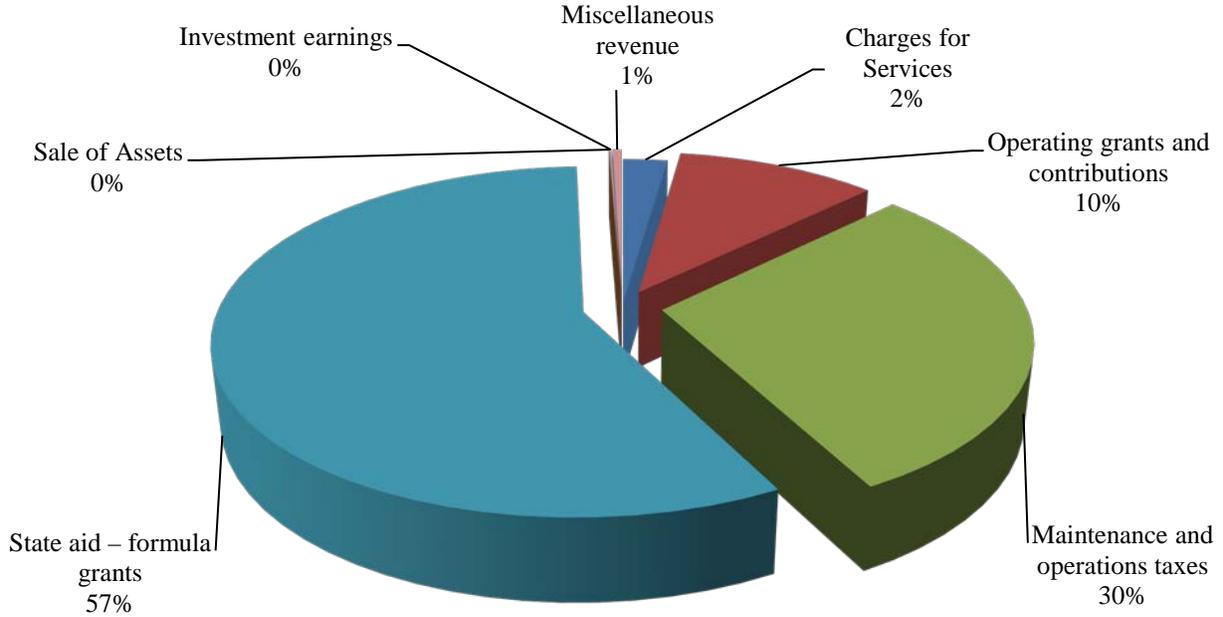
CHANGES IN NET POSITION

	Governmental Activities 2015	Governmental Activities 2016
Revenues:		
Program Revenues:		
Charges for Services	\$256,380	\$286,851
Operating grants and contributions	1,306,894	1,305,925
General Revenues:		
Maintenance and operations taxes	3,614,851	3,681,411
State aid – formula grants	6,498,470	7,128,468
Investment earnings	14,866	12,611
Sale of assets	-0-	4,215
Miscellaneous	47,535	62,375
Total Revenue	11,738,996	12,481,856
Expenses:		
Instruction, curriculum and media services	6,683,377	7,336,452
Instructional and school leadership	555,360	599,642
Student support including transportation	769,939	887,909
Child nutrition	514,336	537,494
Cocurricular activities	751,277	786,718
General administration	589,568	592,761
Plant maintenance, security, data processing	1,409,307	1,626,438
Debt service	185,362	64,518
Capital outlay	80,426	16,589
Payments to outside agents	75,988	80,902
Total Expenses	11,614,940	12,529,423
Increase in Net Position before transfers and special items	124,056	(47,567)
Beginning Net Position at 9/01	13,458,703	12,780,518
Prior Period Adjustment	(802,241)	-0-
Ending Net Position at 8/31	\$12,780,518	\$12,732,951

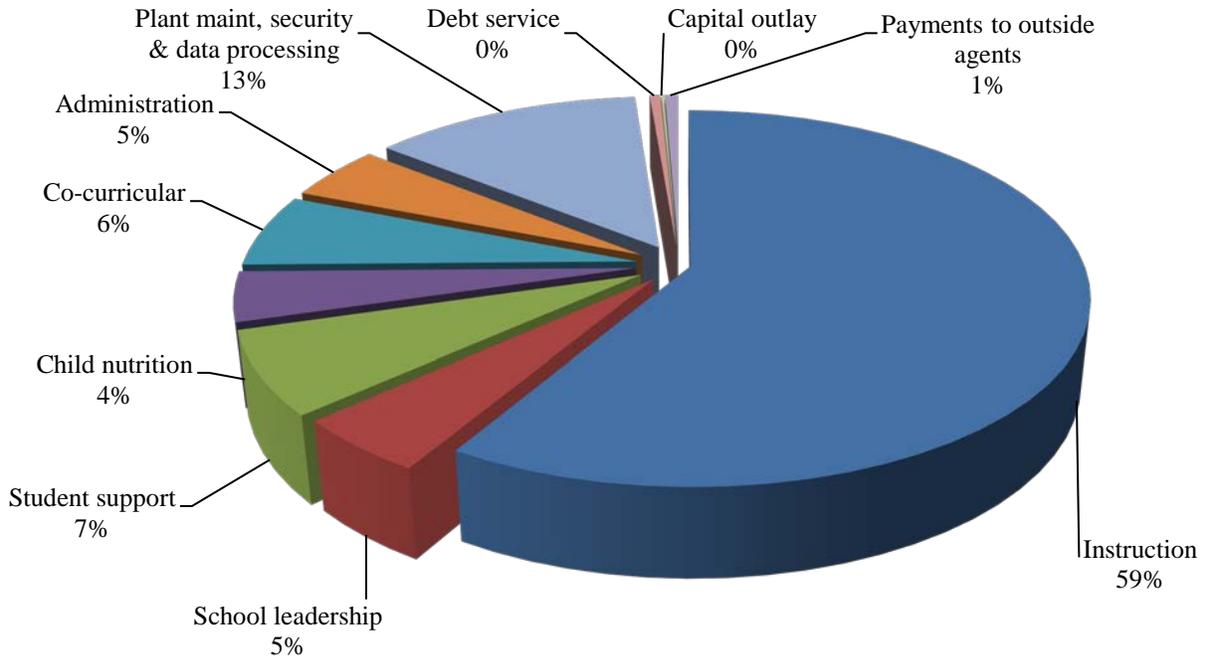
**Management's Discussion and Analysis
Hughes Springs Independent School District
For the Fiscal Year Ended August 31, 2016**

-UNAUDITED-

**TABLE II
CHART A – REVENUES**



**TABLE II
CHART B – EXPENSES**



**Management's Discussion and Analysis
Hughes Springs Independent School District
For the Fiscal Year Ended August 31, 2016**

-UNAUDITED-

The District's total revenues increased by 6.3%. The total cost of all programs and services increased by 7.9%.

The cost of all governmental activities this year was \$12,529,423. As shown in the Statement of Activities on page 16, the amount that our taxpayers ultimately financed for these activities through District taxes was \$3,681,411 because some of the costs were paid by those who directly benefited from the programs (\$286,851) or by other governments and organizations that subsidized certain programs with grants and contributions (\$1,305,925) or by unrestricted grants, other revenue and net position (\$7,255,236).

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 17) reported a combined fund balance of \$6,928,970, which is more than last year's total of \$6,832,626. Included in this year's total change in fund balance is an increase of \$448,309 in the District's General Fund.

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into two categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 2015). The second category involved amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs.

The District's General Fund balance of \$6,802,124 reported on pages 17 and 49 differs from the General Fund's budgetary fund balance of \$6,405,562 reported in the budgetary comparison schedule on page 49.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the District had \$31,858,784 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. There was a net increase in capital assets of \$938,309 over last year. The increase was primarily for renovation of facilities, and new equipment and vehicles.

The District's fiscal year 2016/17 has plans for major capital asset expenditures. More detailed information about the District's capital assets is presented in Note IV-F to the financial statements.

Debt

Long term debt (bonds) decreased \$110,000 for the year ending August 31, 2016. As of year-end, the District had outstanding bonds of \$2,192,000. The District has no loans or capital leases.

**Management's Discussion and Analysis
Hughes Springs Independent School District
For the Fiscal Year Ended August 31, 2016**

-UNAUDITED-

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.

These indicators were taken into account when adopting the General Fund budget for 2017. Amounts appropriated in the General Fund budget are \$10,505,661, a decrease from the final 2016 actual of \$10,584,600. This slight decrease is due to decreased property tax valuations even though ADA is up from the prior year. If these estimates are realized, the District's budgetary General Fund balance is expected to remain close to the same at the close of 2017. More importantly, however, this will have been accomplished in spite of unfunded mandates.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

District's business office, at Hughes Springs Independent School District, 871 Taylor St., Hughes Springs, Texas.

BASIC FINANCIAL STATEMENTS



HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2016

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 6,459,867
1220 Property Taxes Receivable (Delinquent)	268,707
1230 Allowance for Uncollectible Taxes	(16,122)
1240 Due from Other Governments	896,296
1260 Internal Balances	662
1290 Other Receivables, net	130
1300 Inventories	44,824
Capital Assets:	
1510 Land	100,050
1520 Buildings, Net	6,854,587
1530 Furniture and Equipment, Net	1,788,948
1000 Total Assets	16,397,949
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS	1,204,388
1700 Total Deferred Outflows of Resources	1,204,388
LIABILITIES	
2110 Accounts Payable	38,479
2160 Accrued Wages Payable	423,735
2300 Unearned Revenue	20,328
Noncurrent Liabilities	
2501 Due Within One Year	90,000
2502 Due in More Than One Year	2,180,090
2540 Net Pension Liability (District's Share)	1,970,193
2000 Total Liabilities	4,722,825
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	146,561
2600 Total Deferred Inflows of Resources	146,561
NET POSITION	
3200 Net Investment in Capital Assets	6,473,495
3850 Restricted for Debt Service	9,651
3870 Restricted for Campus Activities	49,654
3900 Unrestricted	6,200,151
3000 Total Net Position	\$ 12,732,951

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

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	6
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities

Primary Government:

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 7,103,231	\$ 28,084	\$ 796,529	\$ (6,278,618)
12 Instructional Resources and Media Services	104,747	-	4,063	(100,684)
13 Curriculum and Staff Development	128,474	-	4,705	(123,769)
23 School Leadership	599,642	-	30,344	(569,298)
31 Guidance, Counseling and Evaluation Services	104,175	-	4,846	(99,329)
32 Social Work Services	72,092	-	4,703	(67,389)
33 Health Services	115,931	-	5,705	(110,226)
34 Student (Pupil) Transportation	595,711	-	14,504	(581,207)
35 Food Services	537,494	115,854	367,186	(54,454)
36 Extracurricular Activities	786,718	118,366	13,589	(654,763)
41 General Administration	502,186	9,676	16,575	(475,935)
51 Facilities Maintenance and Operations	1,218,864	14,871	28,273	(1,175,720)
52 Security and Monitoring Services	85,564	-	5,279	(80,285)
53 Data Processing Services	322,010	-	9,624	(312,386)
72 Debt Service - Interest on Long Term Debt	63,768	-	-	(63,768)
73 Debt Service - Bond Issuance Cost and Fees	750	-	-	(750)
81 Capital Outlay	16,589	-	-	(16,589)
93 Payments related to Shared Services Arrangements	80,902	-	-	(80,902)
99 Other Intergovernmental Charges	90,575	-	-	(90,575)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 12,529,423</u>	<u>\$ 286,851</u>	<u>\$ 1,305,925</u>	<u>(10,936,647)</u>

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	3,681,411
GC	Grants and Contributions not Restricted	7,128,468
IE	Investment Earnings	12,611
MI	Miscellaneous Local and Intermediate Revenue	62,375
FR	Sale of Assets	4,215
TR	Total General Revenues & Transfers	<u>10,889,080</u>
CN	Change in Net Position	(47,567)
NB	Net Position - Beginning	<u>12,780,518</u>
NE	Net Position--Ending	<u>\$ 12,732,951</u>

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

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2016

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 6,313,482	\$ 93,451	\$ 6,406,933
1220 Property Taxes - Delinquent	264,521	4,186	268,707
1230 Allowance for Uncollectible Taxes (Credit)	(15,871)	(251)	(16,122)
1240 Receivables from Other Governments	815,483	80,813	896,296
1260 Due from Other Funds	139,934	43,413	183,347
1290 Other Receivables	-	130	130
1300 Inventories	19,673	25,151	44,824
1000 Total Assets	<u>\$ 7,537,222</u>	<u>\$ 246,893</u>	<u>\$ 7,784,115</u>
LIABILITIES			
2110 Accounts Payable	\$ 37,136	\$ 1,343	\$ 38,479
2160 Accrued Wages Payable	392,164	31,571	423,735
2170 Due to Other Funds	66,881	62,870	129,751
2300 Unearned Revenues	-	20,328	20,328
2000 Total Liabilities	<u>496,181</u>	<u>116,112</u>	<u>612,293</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	238,917	3,935	242,852
2600 Total Deferred Inflows of Resources	<u>238,917</u>	<u>3,935</u>	<u>242,852</u>
FUND BALANCES			
Nonspendable Fund Balance:			
3410 Inventories	19,673	25,151	44,824
Restricted Fund Balance:			
3480 Retirement of Long-Term Debt	-	9,651	9,651
3490 Other Restricted Fund Balance	-	49,654	49,654
Committed Fund Balance:			
3510 Construction	2,500,000	-	2,500,000
3530 Capital Expenditures for Equipment	850,000	-	850,000
3540 Self Insurance	8,603	-	8,603
3545 Other Committed Fund Balance	1,167,000	-	1,167,000
3600 Unassigned Fund Balance	2,256,848	42,390	2,299,238
3000 Total Fund Balances	<u>6,802,124</u>	<u>126,846</u>	<u>6,928,970</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 7,537,222</u>	<u>\$ 246,893</u>	<u>\$ 7,784,115</u>

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

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

Total Fund Balances - Governmental Funds	\$	6,928,970
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position.		-
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$30,647,475 and the accumulated depreciation was (\$21,766,203). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		6,442,941
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2016 capital outlays and debt principal payments is to increase net position.		1,108,309
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$1,970,193, a Deferred Resource Inflow related to TRS in the amount of \$146,561 and a Deferred Resource Outflow related to TRS in the amount of \$1,204,388. This amounted to a decrease in Net Position in the amount of \$912,366.		(912,366)
5 The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(1,075,996)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		241,093
19 Net Position of Governmental Activities	\$	12,732,951

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

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds	
REVENUES:				
5700	Total Local and Intermediate Sources	\$ 3,802,076	\$ 195,114	\$ 3,997,190
5800	State Program Revenues	7,356,061	120,492	7,476,553
5900	Federal Program Revenues	-	708,705	708,705
5020	Total Revenues	<u>11,158,137</u>	<u>1,024,311</u>	<u>12,182,448</u>
EXPENDITURES:				
Current:				
0011	Instruction	6,019,060	460,988	6,480,048
0012	Instructional Resources and Media Services	100,364	-	100,364
0013	Curriculum and Instructional Staff Development	123,698	-	123,698
0023	School Leadership	569,746	-	569,746
0031	Guidance, Counseling and Evaluation Services	98,976	-	98,976
0032	Social Work Services	68,428	-	68,428
0033	Health Services	110,278	-	110,278
0034	Student (Pupil) Transportation	540,897	-	540,897
0035	Food Services	3,355	503,621	506,976
0036	Extracurricular Activities	516,828	71,550	588,378
0041	General Administration	460,320	-	460,320
0051	Facilities Maintenance and Operations	1,139,417	-	1,139,417
0052	Security and Monitoring Services	93,143	-	93,143
0053	Data Processing Services	337,697	-	337,697
Debt Service:				
0071	Principal on Long Term Debt	-	170,000	170,000
0072	Interest on Long Term Debt	-	62,009	62,009
0073	Bond Issuance Cost and Fees	750	-	750
Capital Outlay:				
0081	Facilities Acquisition and Construction	112,764	354,953	467,717
Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of SSA	80,902	-	80,902
0099	Other Intergovernmental Charges	90,575	-	90,575
6030	Total Expenditures	<u>10,467,198</u>	<u>1,623,121</u>	<u>12,090,319</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>690,939</u>	<u>(598,810)</u>	<u>92,129</u>
OTHER FINANCING SOURCES (USES):				
7912	Sale of Real and Personal Property	4,215	-	4,215
7915	Transfers In	-	246,845	246,845
8911	Transfers Out (Use)	(246,845)	-	(246,845)
7080	Total Other Financing Sources (Uses)	<u>(242,630)</u>	<u>246,845</u>	<u>4,215</u>
1200	Net Change in Fund Balances	448,309	(351,965)	96,344
0100	Fund Balance - September 1 (Beginning)	<u>6,353,815</u>	<u>478,811</u>	<u>6,832,626</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 6,802,124</u>	<u>\$ 126,846</u>	<u>\$ 6,928,970</u>

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

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2016

Total Net Change in Fund Balances - Governmental Funds	\$	96,344
<p>The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities.</p>		
		-
<p>Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2016 capital outlays and debt principal payments is to increase net position.</p>		
		1,108,309
<p>Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.</p>		
		(1,075,996)
<p>Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.</p>		
		33,488
<p>The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2015 caused the change in the ending net position to increase in the amount of \$166,219. Contributions made before the measurement date and during the 2014 FY were also expended in the 2015 FY and recorded as an increase in net pension expense for the District. This caused a decrease in the change in net position totaling \$165,036. The District's proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$210,895. The net result is to decrease the change in net position by \$209,712.</p>		
		(209,712)
Change in Net Position of Governmental Activities	\$	(47,567)

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

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AUGUST 31, 2016

	Governmental Activities -
	Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 52,934
Total Assets	52,934
LIABILITIES	
Current Liabilities:	
Due to Other Funds	52,934
Total Liabilities	52,934
NET POSITION	
Restricted for Other Purposes	-
Total Net Position	\$ -

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

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 21,530
Total Operating Revenues	21,530
OPERATING EXPENSES:	
Payroll Costs	21,530
Total Operating Expenses	21,530
Operating Income	-
Total Net Position - September 1 (Beginning)	-
Total Net Position - August 31 (Ending)	\$ -

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

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 20,514
Cash Payments for Insurance Claims	(21,530)
Net Cash Used for Operating Activities	<u>(1,016)</u>
Net Decrease in Cash and Cash Equivalents	(1,016)
Cash and Cash Equivalents at Beginning of Year	<u>53,950</u>
Cash and Cash Equivalents at End of Year	<u>\$ 52,934</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income (Loss):	\$ -
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Due to Other Funds	<u>(1,016)</u>
Net Cash Used for Operating Activities	<u>\$ (1,016)</u>

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

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET POSITION
 FIDUCIARY FUNDS
 AUGUST 31, 2016

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 91,163
Total Assets	<u>\$ 91,163</u>
LIABILITIES	
Due to Other Funds	\$ 662
Due to Student Groups	90,501
Total Liabilities	<u>\$ 91,163</u>

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

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

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Hughes Springs Independent School District (the "District") is a public education agency operating under the applicable laws and regulations of the state of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its financial statements in conformity with generally accepted accounting principles promulgated by Governmental Accounting Standards Board and other authoritative sources identified in *Statements on Auditing Standards No. 69* of the American Institute of Public Accountants and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

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

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting unit.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The District's basic financial statements consist of government-wide statements, including a statement of net position and a statement of activities, and fund financial statements, which provide a more detailed level of financial information.

Government-wide Financial Statements - The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Hughes Springs Independent School District's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues.

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

The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the direct expense to each function.

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

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

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

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

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

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting, as do fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. All assets, liabilities, and deferred inflows of resources associated with the operation of the District are included on the Statement of Net Position.

Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

All governmental fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, deferred inflows of resources, and fund balances are included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balance report the sources (i.e. revenues and other financing sources) and uses (i.e. expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliations with a brief explanations to better identify the relationship between government-wide statements and the governmental fund statements.

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available. For this purpose, the District considers revenue available if they are collected within 60 days of the end of the current fiscal period. It recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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

Revenues – Exchange Transactions - Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis of accounting, revenue is recorded when the exchange takes place and in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current year and are expected to be collected soon enough thereafter to be used to pay liabilities of the current year. For the District, the phrase “available for exchange transactions” means expected to be received within 60 days of year-end.

Revenues – Non-exchange Transactions – Non-exchange transactions in which the District receives value without directly giving equal value in return, include property taxes, grants, and donations. On the government-wide financial statements, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specified purpose; and expenditures requirements, in which the resources are provided to the District on a reimbursement basis. On modified accrual basis, revenue from non-exchange transactions also must be available (i.e., collected within 60 days) before it can be recognized in the governmental funds.

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

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

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted Net Position, and unrestricted Net Position.

Expenditures/Expenses – On the accrual basis of accounting (government-wide financial statements), expenses are recognized at the time they are incurred. On the modified accrual basis (fund based financial statements), expenditures generally are recognized in the accounting period in which the related fund liability is incurred and due, if measurable.

D. FUND ACCOUNTING

The District reports its financial activities through the use of “fund accounting.” The activities of the District are organized on the basis of funds. The operations of each fund are accounted for within a separated set of self-balancing accounts to reflect results of activities. Fund accounting segregate funds according to their intended purpose and is used to assist management in demonstrating compliance with finance-related legal and contractual provisions. As required by the Texas Education Agency, the following fund types are included in the financial statements.

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

Governmental Funds

The District reports the following major governmental funds:

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

Additionally, the District reports the following fund type(s):

Governmental Funds:

2. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
3. **Internal Service Funds** – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis are accounted for in an internal service fund. The District's Internal Service Fund is Worker's Compensation Self-funded Insurance.

Fiduciary Funds:

4. **Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the Student Activity Fund.

E. OTHER ACCOUNTING POLICIES

1. Cash and Cash Equivalents

The District's Cash Management and Investment Policy requires all deposits to be fully collateralized with depository insurance; obligations of the United States of America or its agencies and instrumentalities (excluding those mortgaged backed securities prohibited by the Public Funds Investments Act); public fund investment pools; or in any manner and amount provided by law for deposits of the District. At all times, such securities are to have a fair value of not less than 110 percent of the amount of the deposits collateralized, adjusted by amount of applicable depository insurance.

The District considers highly liquid investments to be cash equivalents if they have maturity of three months or less when purchased. All other monetary assets are treated as investments including certificates of deposit, investment pools, money market investments, and other securities defined under the Public Funds Investment Act.

2. Investments

Investments are stated at fair value, which is the amount at which the investment can be exchanged in a current transaction between willing parties. Management of the District believes that in the areas of investment practice, management reports, and establishment of appropriate policies, the District adhered to the requirements of the State of Texas Public Funds Investment Act. Additionally, management of the District believes that investment practices of the District were in accordance with local policies.

3. Receivables and Payables

All trade and property tax receivables are shown at face value. The property tax receivable allowance is shown at 6.00 percent of outstanding property tax at August 31, 2016.

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

4. Inventories

Inventories of supplies on the balance sheet are valued at the first in/first out (FIFO) method and include food, consumable maintenance, instructional, and office items. Supplies are recorded as expenditures when they are purchased. If any supplies are on hand at the end of the year, their total cost is recorded as inventory and the fund balance is reserved for the same amount.

5. Grant Fund Accounting

The Special Revenue Fund includes programs that are financed on a project grant basis. These projects have grant periods that can range from less than twelve months to in excess of two years. Grants are recorded as revenues when earned, which the District considers to be earned to the extent expenditures have been incurred, the District has met all eligibility requirements, and funds are available.

6. Long-term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds. Amounts recorded as long-term debt represent obligations that will be met by future revenue resources that are not available as of the current balance sheet date.

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

7. Compensated Absences

State personal leave days are allowed to accumulate and can be transferred with the employee to other district. Local leave is to be taken within the same year it is earned. Any local days not used by the employee in the year earned will be paid \$25 per day in their July payroll. Therefore, there was no liability accrued in the accompanying basic financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying basic financial statements.

8. Capital Assets

Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

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

Buildings	20 – 50 years
Building Improvements	20 – 50 years
Vehicles	5 – 10 years
Office Equipment and Furniture	4 – 7 years
Computer Equipment	3 – 5 years

The District has no restriction on any assets.

9. Self-Insured Workers Compensation

During the year, the District participated in a public entity risk pool for workers' compensation insurance. The plan was established pursuant to Texas Revised Code Statutes Annotated Art. 8309h and Texas Government code, Ch. 791.

10. Interfund Transactions

Activities between funds that are representative of lending/borrowing arrangements at the end of the fiscal year are referred to as due to/from other funds. All balances between funds are reported as transfers. See Note IV-D for additional discussion of interfund receivables and payables.

A description of the basic types of Interfund transactions and the related accounting policies are as follows:

For reporting at the government-wide financial statement level, the District eliminates direct interfund charges for services and the balances created within the same activity categories (i.e. governmental vs. business-type). This process ensures neither governmental nor business-type activities report direct internal revenue/expenditures. Interfund activity and balances resulting from transactions with the fiduciary funds are not eliminated. Instead, the fiduciary interfund activity and balances are treated as transactions with an external party. The Internal Service Fund is essentially a repository for income, expenses, assets and liabilities of the District's workers' compensation.

11. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there are no settlements exceeding insurance coverage for each of the past three fiscal years.

12. Fund Equity

Nonspendable fund balance - amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as the corpus of an endowment fund).

Restricted fund balance – amounts constrained to specific purposes by their provider (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.

Committed fund balance – amounts constrained to specific purposes by a government itself, using its highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest-level action to remove or change the constraint.

Assigned fund balance – amounts a government *intends* to use for a specific purpose; intent can be expressed by the governing body.

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

As of August 31, 2016:

	<u>General</u>	<u>Other</u>	<u>Total</u>
<u>Nonspendable:</u>			
Inventory	\$ 19,673	\$ 25,151	\$ 44,824
<u>Restricted:</u>			
Textbook Fund		1,023	1,023
Campus Activity		48,631	48,631
Debt Service Fund		9,651	9,651
<u>Committed:</u>			
Construction	2,500,000		2,500,000
Capital Equip Expenditures	850,000		850,000
Self Insurance	8,603		8,603
Other	1,167,000		1,167,000
<u>Unassigned:</u>			
	<u>2,256,848</u>	<u>42,390</u>	<u>2,299,238</u>
	<u>\$6,802,124</u>	<u>\$126,846</u>	<u>\$6,928,970</u>

Net Position - Net position represents the difference between assets and deferred outflow of resources, and liabilities and deferred inflow of resources. Net investment in capital consists of cost of capital assets, net of accumulated depreciation, reduced by outstanding balances of any borrowing used for the acquisition, construction, or improvements if those assets. This net investment in capital assets amount also is adjusted by any bond issuance deferred amounts. Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislature adopted by the district or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. All other net position is reported as unrestricted.

13. Deferred Inflows of Resources

In addition to liabilities, the financial statements will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

14. Application of Restricted or Unrestricted Assets

During the budgeting process, allocation of expenses are determined as to whether it originated following specific guidelines related to restricted assets retained in the fund or whether for other purposes (non-restricted). Restricted assets will be used before unrestricted assets when payments are budgeted for an expenditures, which meets the specific guidelines, set forth by the granting agency.

15. Control Totals

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

16. Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets

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

and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

17. Internal Service Funds

Since Internal Service Funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the District as a whole.

18. Allocation of Indirect Expenses to Functions in the Statement of Activities

Program revenues are derived from the program itself or from parties outside the reporting government taken as a whole, with the effect of reducing the net cost of the function to be financed from the government's general revenues. The statement of activities should separately report three categories of program revenues; (a) charges for services, (b) program-specific operating grants and contributions, and (c) program-specific capital grants and contributions.

NOTE II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the Net Position for governmental activities as reported in the government-wide statement of Net Position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets at the Beginning of the year</u>	<u>Historic Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Position</u>
Land	100,050		100,050	
Buildings	25,896,351	18,893,430	7,002,921	
Furniture & Equipment	4,651,074	2,872,773	1,778,301	
Construction-in-Progress	-0-		-0-	
Change in Net Position				8,881,272
<u>Long-term Liabilities at the Beginning of the year</u>			<u>Payable at the Beginning of the Year</u>	
Bonds Payable			2,438,331	
Lease Payable			-0-	
Change in Net Position				<u>2,438,331</u>
Net Adjustment to Net Position				<u>6,442,941</u>

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

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in Net Position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the Net Position balance and the change in Net Position. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Current Year Capital Outlay</u>			
Buildings & Improvements	456,519		
Furniture & Equipment	481,790		
Construction in Progress	<u>-0-</u>		
Total Capital Outlay	<u>938,309</u>	<u>938,309</u>	<u>938,309</u>
 <u>Debt Principal Payments</u>			
Bond Principal	170,000		
Lease Principal	<u>-0-</u>		
Total Principal Payments	<u>170,000</u>	<u>170,000</u>	<u>170,000</u>
Total Adjustment to Net Position		<u>\$1,108,309</u>	<u>\$1,108,309</u>

Another element of the reconciliation on Exhibit C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this adjustment are as follows:

	<u>Amount</u>	<u>Adjustments to Change in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	54,865	(54,865)	
Uncollected taxes (assumed collectible) from Current Year Levy	90,112	90,112	90,112
Uncollected Taxes (assumed collectible) from Prior Year Levy	152,740		152,740
Other Adjustment (CAB Accretion)	1,759	<u>(1,759)</u>	<u>(1,759)</u>
Total		<u>\$ 33,488</u>	<u>\$ 241,093</u>

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

NOTE III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

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

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

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to September 1, the Board legally enacts the budget through passage of a resolution. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. There were no significant amendments.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

	August 31, 2016 <u>Fund Balance</u>
Non Spendable – Food Service	25,151
Restricted – Textbook Fund	1,023
Restricted – Debt Service Fund	9,651
Restricted – Campus Activity Funds	48,631
Unassigned Budget Funds – Capital Projects Fund	<u>42,390</u>
 All Special Revenue Funds	 <u>\$126,846</u>

5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. End-of-year outstanding encumbrances that were provided for in the subsequent year's budget are presented below:

General Fund	\$-0-
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A reservation of fund balance equal to outstanding encumbrances at year-end is provided for at August 31, 2016.

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

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Expenditures exceeded final budget in the General Fund 199, Functions 11 by \$7,013 and 51 by \$14,478. In aggregate expenditures were less than budget by \$65,655.

NOTE IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITORY CONTRACT LAW

The funds of the District must be deposited and invested under terms of a contract, contents of which are set out in the **Depository Contract Law**. The depository bank places approved pledged securities for safekeeping and trust with the District's agency bank 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.

At August 31, 2016, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts) was \$6,425,436 and the bank balance was \$6,641,778. The District's combined deposits were fully insured at all times by federal depository insurance or collateralized with securities pledged to the District and held by the District's agent. The TEA maintains copies of all safekeeping receipts in the name of the District.

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

- a. Depository: 1st National Bank of Hughes Springs, Hughes Springs, Texas
- b. The fair market value of collateral held by a third party bank in depository bank's name and specifically noted by the third party bank as pledged to the District, as of the date of the highest combined balance on deposit was: \$8,940,124.
- c. The largest combined balances of cash, savings, and time deposit accounts amounted to \$8,573,003 and occurred during the month of February 2016.
- d. The total amount of FDIC coverage at the time of the largest combined balance was \$ 500,000.
- e. The amount of unsecured deposits was \$-0-.

District Policies Governing Deposits and Investments

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy.

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

Foreign Currency Risk: The district does not invest in foreign currency, therefore has no foreign currency risk.

**HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
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Custodial Credit Risk – Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Since the government invests in only external investment pools that meet the requirements of Government Code 2256.016 and 2256.019 they have no custodial credit risk for investments.

The District invests in an external investment pool. Financial reports issued by the pool can be obtained from First Public, LLC, 7620 Guadalupe, Austin, TX 78752. The pool is registered with the SEC and has an AAA rating.

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

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (in years)</u>			<u>More Than 10</u>
		<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	
Lone Star Investment Pool	<u>\$125,594</u>	<u>\$125,594</u>			
Total	<u>\$125,594</u>	<u>\$125,594</u>			

Both cash deposits and investments held at a financial institution can be categorized according to three levels of risk. These three levels of risk are:

Category 1 - Cash or investments that are insured, registered, or held by the District or its agent in the District's name.

Category 2 - Cash or investments that are uninsured and unregistered held by the counter-party's trust department or agency in the District's name.

Category 3 - Uninsured and unregistered held by the counter-party, its trust department, or its agency, but not in the District's name.

Based on these three levels of risk, the following table categorizes the District's investments at August 31, 2016.

	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>	<u>Carrying Amount</u>	<u>Market Value</u>
Lone Star Investment Pool:					
General Fund			\$64,137	\$64,137	\$64,137
Activity Fund			61,457	61,457	61,457
Totals	<u>\$-0-</u>	<u>\$-0-</u>	<u>\$125,594</u>	<u>\$125,594</u>	<u>\$125,594</u>

The Public Funds Investments Act (Government Code Chapter 2256) contains specific provisions in the area of investment practice, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy addresses the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments (4) acceptable risk levels, (5) expected rate of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity date for the portfolio, (8) investment staff quality and capability, (9) and bid solicitation preferences for certificate of deposits. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit; (3) certain municipal securities; (4) money market savings accounts; (5) repurchase agreements; (6) banker's acceptance notes; (7) mutual funds; (8) investments pools; (9) guaranteed investment contracts; (10) and common trust funds. Temporary investments are reported at cost, which approximates market, and are secured, when necessary, by the Federal Deposit Insurance Corporation (FDIC) or obligations of items 1-4 above at 102% of the investment's market value. The Act also requires the District to have an independent auditor perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

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

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for real and personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are delinquent and subject to interest if not paid by February 1 of the year following the October 1 levy date. On June 30 of each year, a tax lien attaches to the property to secure payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

The tax rates assessed for the year ended August 31, 2016, to finance General Fund operations was \$1.119046 per \$100 valuation and Debt Service was 0.0000 per \$100 valuation. The assessed value of the property tax roll on August 1, 2015, upon which the levy for the 2015-16 fiscal year was based, was \$332,839,775. The roll was subsequently increased to a year-end assessed value of \$329,645,440.

Current tax collections for the year ended August 31, 2016 were 98.90% of the year-end adjusted tax levy. As of August 31, 2016, property taxes receivable, net of estimated uncollectible taxes, totaled \$248,650 for the General Fund and \$3,935 for the Debt Service Fund.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates for the year of the levy. Allowance for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND PAYABLES AND RECEIVABLES AND TRANSFERS

Interfund balances at August 31, 2016, consisted of the following individual fund receivables and payables:

	Due to Other Funds	Due from Other Funds
General Fund:		
Special Revenue Fund	1,023	\$ 62,870
General Fund	23,468	23,468
Internal Service		52,934
Agency Fund		662
Capital Projects Fund	42,390	
Special Revenue:		
General Fund	62,870	1,023
Capital Projects Fund		42,390
Agency Fund:		
General Fund	662	
Internal Service Fund:		
General Fund	52,934	
Total	\$183,347	\$183,347

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Interfund transfers at August 31, 2016, consisted of the following:

	Transfers to Other Funds	Transfer from Other Funds
General Fund:		
Debt Service Fund	\$ 232,009	
Special Revenue	14,836	
Debt Service:		
General Fund		\$232,009
Special Revenue Fund:		
General Fund		14,836
Total	\$ 246,845	\$ 246,845

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2016, were as follows:

	Property Taxes-net	Other Governments	Due From Other Funds	Other	Total Receivables
Governmental Activities:					
General Fund	\$ 248,650	\$ 815,483	\$ 139,934	\$ -0-	\$1,204,067
Nonmajor Governmental Funds	<u>3,935</u>	<u>80,813</u>	<u>43,413</u>	<u>130</u>	<u>128,291</u>
Total - Governmental Activities	<u>\$ 252,585</u>	<u>\$ 896,296</u>	<u>\$ 183,347</u>	<u>\$ 130</u>	<u>\$ 1,332,358</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

Payables at August 31, 2016, were as follows:

	Accounts Payable	Salaries and Benefits	Due To Other Funds	Due to Other Governments	Other	Total Payables
Governmental Activities:						
General Fund	\$ 37,136	\$ 392,164	\$ 66,881	\$ -0-	\$ -0-	\$ 496,181
Nonmajor Gov. Fund	<u>1,343</u>	<u>31,571</u>	<u>62,870</u>	<u>-0-</u>	<u>-0-</u>	<u>95,784</u>
Total - Gov. Activities	<u>\$ 38,479</u>	<u>\$ 423,735</u>	<u>\$ 129,751</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 591,965</u>
Amounts not scheduled for payment during the subsequent year	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

F. CAPITAL ASSET ACTIVITY

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

	Primary Government			Balance 8/31/16
	Balance 9/1/15	Additions	Adjustments	
Land	\$ 100,050	\$ -0-	\$ -0-	\$ 100,050
Buildings	25,896,351	462,313	(5,794)	26,352,870
Furniture & Equipment	<u>4,651,074</u>	<u>481,790</u>	<u>-0-</u>	<u>5,132,864</u>
Total at Historical Cost	<u>\$ 30,647,475</u>	<u>\$944,103</u>	<u>\$ (5,794)</u>	<u>\$ 31,858,784</u>

**HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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Less Accumulated
Depreciation for:

Buildings	\$ 18,893,430	\$ 604,853	\$ -0-	\$19,498,283
Furniture & Equipment	<u>2,872,773</u>	<u>471,143</u>	<u>-0-</u>	<u>3,343,916</u>
Total Accumulated Depreciation	<u>\$ 21,766,203</u>	<u>\$1,075,996</u>	<u>\$ -0-</u>	<u>\$22,842,199</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 519,645
Student Transportation	212,450
Media	1,217
Curricular/Extracurricular	223,042
Food Service	21,351
General Administration	25,764
Data Processing	3,970
Plant Maint & Operations	<u>68,557</u>

Total Depreciation Expense \$ 1,075,996

G. LOANS PAYABLE

There were no loans at August 31, 2016.

H. BONDS PAYABLE

Bond indebtedness of the District is reflected in the General Long-term Debt Account Group, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. Long-term debt includes general obligation serial bonds. Bond premiums and discounts are amortized using the effective interest method.

The following is a summary of the changes in the District's general Long-term Debt Account Group for the year ended August 31, 2016:

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issue</u>	<u>Amounts Outstanding 9/1/15</u>	<u>Issued</u>	<u>Retired</u>	<u>Amounts Outstanding 8/31/16</u>
Unlimited Tax Refunding, Series 2014	2.95%	\$2,153,000	\$2,102,000	\$ -0-	\$ -0-	\$2,102,000
Capital Appreciation Bonds	1.0-1.25%	200,000	<u>200,000</u>	<u>-0-</u>	<u>110,000</u>	<u>\$ 90,000</u>
Total			<u>\$ 2,302,000</u>	<u>\$ -0-</u>	<u>\$ 110,000</u>	<u>\$2,192,000</u>
CAB Accretion & Premium			<u>\$136,331</u>	<u>\$ 1,759</u>	<u>\$ 60,000</u>	<u>\$ 78,090</u>

Presented below is a summary of general obligation bond requirements to maturity:

<u>Year Ended August 31,</u>	<u>Principal</u>	<u>Premiums & Interest</u>	<u>Total Requirements</u>
2017	90,000	142,009	232,009
2018	148,000	59,826	207,826
2019	152,000	55,401	207,401
2020	157,000	50,843	207,843
2021	162,000	46,138	208,138
2022-2026	886,000	154,934	1,040,934
2027-2029	<u>597,000</u>	<u>26,772</u>	<u>623,772</u>
Total	<u>\$2,192,000</u>	<u>\$535,923</u>	<u>\$2,727,923</u>

**HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
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There are a number of limitations and restrictions contained in the various general obligation bonds indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2016.

I. COMMITMENTS UNDER LEASES

Operating Leases

Commitments under operating (noncapitalized) lease agreements for equipment provide for minimum future rental payments as of August 31, 2016, as follows:

Year Ended <u>August 31</u>	Total <u>Requirements</u>
2015	9,825
2016	22,290
2017	29,080
2018	29,637
2019	20,481
2020-2021	<u>13,236</u>
Total	<u>\$124,549</u>

Capital Leases

The District had no capital leases in effect at year end.

J. CHANGES IN LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activity:					
Unlimited Tax Refund, Series 2014	2,102,000	-0-	-0-	2,102,000	-0-
Capital Appreciation Bonds	<u>200,000</u>	<u>-0-</u>	<u>110,000</u>	<u>90,000</u>	<u>90,000</u>
Governmental Activities					
Long-term Liabilities	<u>\$2,302,000</u>	<u>\$ -0-</u>	<u>\$110,000</u>	<u>\$2,192,000</u>	<u>\$ 90,000</u>
CAB Accretion & Premium	<u>\$136,331</u>	<u>\$ 1,759</u>	<u>\$ 60,000</u>	<u>\$ 78,090</u>	<u>\$ -0-</u>
Net Pension Liability	<u>\$708,065</u>	<u>\$1,427,164</u>	<u>\$165,036</u>	<u>\$1,970,193</u>	

K. HEALTH CARE COVERAGE

Retiree Health Care Coverage

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

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NOTES TO THE FINANCIAL STATEMENTS
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Funding Policy Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The Contribution Rate for the State was 1.00% for 2014, 2015 and 2016. The contribution rate for the district was 0.55% for each of these three years. The contribution rate for active employees was 0.65% of the district payroll for each of the three years. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribution 1.0 %.

Active Employee Health Care Coverage

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

L. MEDICARE PART D PROGRAM

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 the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments must be recognized as revenue and expenditures/expenses by each reporting entity. For the year ended August 31, 2016, Hughes Springs ISD recognized Medicare Part D on-behalf payments of \$27,082.

M. DEFERRED REVENUE and DEFERRED INFLOW OF RESOURCES

Deferred revenue at year-end consisted of the following:

	General Fund	Special Revenue	Debt Service	Total
Net Property Taxes	\$238,917	\$ -0-	\$3,935	\$242,852
Other Deferred Revenues	-0-	20,328	-0-	20,328
Totals	<u>\$238,917</u>	<u>\$ 20,328</u>	<u>\$3,935</u>	<u>\$263,180</u>

N. DUE FROM STATE AGENCY

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2016, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

<u>Fund</u>	State Entitlements	Federal & State Grants	Total
General	\$ 815,483	\$ -0-	\$ 815,483
Special Revenue	-0-	80,813	80,813
Total	<u>\$ 815,483</u>	<u>\$ 80,813</u>	<u>\$ 896,296</u>

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

O. REVENUES FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Special Revenue Fund	Debt Service Fund	Trust, Int Ser & Campus Act. Fund	Total
Property Taxes	\$3,648,363	\$ -0-	\$ 97	\$-0-	\$3,648,460
Food Sales	-0-	116,696	-0-	-0-	116,696
Investment Income	12,611	-0-	-0-	27	12,638
Penalties, interest and other tax related income	39,916	-0-	156	-0-	40,072
Co-curricular student activities	47,286	-0-	-0-	-0-	47,286
Other	53,900	-0-	-0-	99,668	153,568
Total	\$ 3,802,076	\$ 116,696	\$ 253	\$ 99,695	\$ 4,018,720

P. COMMITMENTS AND CONTINGENCIES

(1) Litigation – The District may be subjected to loss contingencies arising principally in the normal course of operations. As of the report date, the District was not involved in any outstanding litigation.

(2) Grant Programs - The District participates in numerous state and Federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2016 may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

Q. RISK MANAGEMENT

In the normal course of operation the District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 2016, the District purchased commercial insurance to cover general liabilities. For insured programs, there were no significant reductions in coverage in the past fiscal year, and no settlements exceeding insurance coverage for each of the past three fiscal years.

In management’s estimation there are no current loss claims that exceed the maximum coverage or any material unfunded claim benefit obligation for self-insured insurance risk pool.

Workers’ Compensation

The District contributed fixed cost of \$10,371 to the fund for the year ended August 31, 2016. The District’s loss fund maximum was \$19,472. The pool participated in claims exceeding the loss maximum up to \$350,000. Estimated claims incurred but not reported (IBNR) were calculated to be \$20,933.

Changes in the workers’ compensation claims liability amounts in fiscal year 2016 are represented below:

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

	<u>2015</u>	<u>2016</u>
Claims payable, beginning of fiscal year	\$ 10,160	\$16,788
Incurring claims and claims adjustment expenses for insured events of the current fiscal year	8,167	19,473
Decrease in provision for insured events of prior fiscal year	<u>(10)</u>	<u>(5,995)</u>
	\$18,317	\$30,266
<u>Payments</u>		
Claims attributable to insured events of the current year	87	19,472
Claims attributable to insured events of the prior year	<u>655</u>	<u>2,191</u>
Total Payments	<u>1,529</u>	<u>21,663</u>
Claims payable, end of fiscal year	<u>\$16,788</u>	<u>\$ 8,603</u>

R. JOINT VENTURE - SHARED SERVICE ARRANGEMENTS

The District participates in a cooperative program for Special Education with five other school districts. Although seventeen percent of the activity of the cooperative is attributable to Hughes Springs Independent School District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. Atlanta Independent School District is the fiscal agent manager and is responsible for all financial activities of the cooperative. The following table represents the revenues and expenditures attributable to Hughes Springs Independent School District's participation.

5929 Revenue	\$413,342
Expenditures:	
6100 Payroll	296,621
6200 Consultants	61,393
6300 Supplies and Materials	13,688
6400 Other Operating	40,703
6600 Capital Outlay	937

S. SUBSEQUENT EVENTS

None Noted.

T. DEFINED BENEFIT PENSION PLANS

1. Plan Description

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

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

2. Pension Plan Fiduciary Net Position

Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at

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

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. The information provided in the Notes to the Financial Statements in the 2014 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2015:

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$163,887,375,172
Less: Plan Fiduciary Net Position	<u>(128,538,706,212)</u>
Net Pension Liability	<u>\$35,348,668,960</u>
 Net Position as percentage of Total Pension Liability	 78.43%

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

	<u>Contribution Rates</u>	
	<u>2015</u>	<u>2016</u>
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
 2015 Employer Contributions		 \$ 165,036
2015 Member Contributions		\$ 441,574
2015 NECE On-behalf Contributions		\$ 374,172

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

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

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources or a privately sponsored source.

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

- When employing a retiree of the Teacher Retirement System the employer shall pay both the member contribution and the state contribution as an employment after retirement surcharge.
- When a school district does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

5. Actuarial Assumptions

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

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases Including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

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

6. Discount Rate

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

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

term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

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

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

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2015 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$3,086,922	\$1,970,193	\$1,040,028

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

At August 31, 2016, the District reported a liability of \$1,970,193 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's Proportionate share of the collective net pension liability	\$ 1,970,193
State's proportionate share that is associated with District	<u>\$4,465,504</u>
Total	<u>\$6,435,697</u>

The net pension liability was measured as of August 31, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The employer's proportion of the net pension liability was based on the employer's contributions to the

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

pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 thru August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.0055736% which was an increase of 0.0029228% from its proportion measured as of August 31, 2014.

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

Economic Assumptions

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

Mortality Assumptions

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

Other Demographic Assumptions

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

Actuarial Methods and Policies

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

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

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

For the year ended August 31, 2015, the District recognized pension expense of \$636,262 and revenue of \$636,262 for support provided by the State in the Government Wide Statement of Activities.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$9,107	\$75,716
Changes in actuarial assumptions	38,277	70,288
Difference between projected and actual investment earnings	322,905	-0-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	667,880	557
Total as of August 31, 2015 measurement date	\$1,038,169	\$146,561
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	166,219	-0-
Total as of fiscal year-end	\$1,204,388	\$146,561

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

	Pension Expense Amount
2017	\$165,102
2018	\$165,102
2019	\$165,104
2020	\$219,204
2021	\$ 97,331
Thereafter	\$ 79,765

REQUIRED SUPPLEMENTARY INFORMATION



HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 3,956,986	\$ 3,958,640	\$ 3,802,076	\$ (156,564)
5800	State Program Revenues	6,625,960	6,625,960	7,356,061	730,101
5020	Total Revenues	10,582,946	10,584,600	11,158,137	573,537
EXPENDITURES:					
Current:					
0011	Instruction	5,966,660	6,012,047	6,019,060	(7,013)
0012	Instructional Resources and Media Services	100,402	102,252	100,364	1,888
0013	Curriculum and Instructional Staff Development	107,395	126,395	123,698	2,697
0023	School Leadership	574,440	577,171	569,746	7,425
0031	Guidance, Counseling and Evaluation Services	100,752	103,030	98,976	4,054
0032	Social Work Services	68,556	70,221	68,428	1,793
0033	Health Services	104,946	112,341	110,278	2,063
0034	Student (Pupil) Transportation	569,093	557,496	540,897	16,599
0035	Food Services	5,070	5,070	3,355	1,715
0036	Extracurricular Activities	519,574	528,799	516,828	11,971
0041	General Administration	444,557	464,122	460,320	3,802
0051	Facilities Maintenance and Operations	1,132,824	1,124,939	1,139,417	(14,478)
0052	Security and Monitoring Services	84,559	94,915	93,143	1,772
0053	Data Processing Services	303,245	343,967	337,697	6,270
Debt Service:					
0071	Principal on Long Term Debt	35,500	4,044	-	4,044
0072	Interest on Long Term Debt	-	5,000	-	5,000
0073	Bond Issuance Cost and Fees	-	750	750	-
Capital Outlay:					
0081	Facilities Acquisition and Construction	50,000	121,945	112,764	9,181
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	76,000	80,902	80,902	-
0099	Other Intergovernmental Charges	110,500	97,447	90,575	6,872
6030	Total Expenditures	10,354,073	10,532,853	10,467,198	65,655
1100	Excess of Revenues Over Expenditures	228,873	51,747	690,939	639,192
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	-	-	4,215	4,215
8911	Transfers Out (Use)	-	-	(246,845)	(246,845)
7080	Total Other Financing Sources (Uses)	-	-	(242,630)	(242,630)
1200	Net Change in Fund Balances	228,873	51,747	448,309	396,562
0100	Fund Balance - September 1 (Beginning)	6,353,815	6,353,815	6,353,815	-
3000	Fund Balance - August 31 (Ending)	\$ 6,582,688	\$ 6,405,562	\$ 6,802,124	\$ 396,562

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT G-2

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.0055736%	0.0026508%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 1,970,193	\$ 708,065
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	4,465,504	3,778,782
Total	<u>\$ 6,435,697</u>	<u>\$ 4,486,847</u>
District's Covered-Employee Payroll	\$ 6,590,643	\$ 6,197,193
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	29.89%	11.43%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.43%	83.25%

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

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

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2016

EXHIBIT G-3

	2016	2015
Contractually Required Contribution	\$ 166,219	\$ 165,036
Contribution in Relation to the Contractually Required Contribution	(166,219)	(165,036)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
District's Covered-Employee Payroll	\$ 6,662,163	\$ 6,590,643
Contributions as a Percentage of Covered-Employee Payroll	2.49%	2.50%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31, 2014 for Fiscal Year 2015 and August 31, 2015 for Fiscal Year 2016.

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

Changes of benefit terms

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

Changes of assumptions

Economic Assumptions

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

Mortality Assumptions

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

Other Demographic Assumptions

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

Actuarial Methods and Policies

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

COMBINING SCHEDULES



HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2016

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ 14,841	\$ -
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes (Credit)	-	-	-	-
1240	Receivables from Other Governments	34,007	25,830	13,486	7,026
1260	Due from Other Funds	-	-	-	-
1290	Other Receivables	-	-	130	-
1300	Inventories	-	-	25,151	-
1000	Total Assets	<u>\$ 34,007</u>	<u>\$ 25,830</u>	<u>\$ 53,608</u>	<u>\$ 7,026</u>
LIABILITIES					
2110	Accounts Payable	\$ -	\$ -	\$ 879	\$ -
2160	Accrued Wages Payable	17,524	1,691	9,044	3,312
2170	Due to Other Funds	16,483	24,139	18,534	3,714
2300	Unearned Revenues	-	-	-	-
2000	Total Liabilities	<u>34,007</u>	<u>25,830</u>	<u>28,457</u>	<u>7,026</u>
DEFERRED INFLOWS OF RESOURCES					
2601	Unavailable Revenue - Property Taxes	-	-	-	-
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Nonspendable Fund Balance:					
3410	Inventories	-	-	25,151	-
Restricted Fund Balance:					
3480	Retirement of Long-Term Debt	-	-	-	-
3490	Other Restricted Fund Balance	-	-	-	-
3600	Unassigned Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>25,151</u>	<u>-</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 34,007</u>	<u>\$ 25,830</u>	<u>\$ 53,608</u>	<u>\$ 7,026</u>

270 ESEA VI, Pt B Rural & Low Income	410 State Textbook Fund	427 Expanding the 3E's Grant Program	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	699 Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ 20,328	\$ -	\$ 48,631	\$ 83,800	\$ 9,651	\$ -	\$ 93,451
-	-	-	-	-	4,186	-	4,186
-	-	-	-	-	(251)	-	(251)
-	464	-	-	80,813	-	-	80,813
-	1,023	-	-	1,023	-	42,390	43,413
-	-	-	-	130	-	-	130
-	-	-	-	25,151	-	-	25,151
<u>\$ -</u>	<u>\$ 21,815</u>	<u>\$ -</u>	<u>\$ 48,631</u>	<u>\$ 190,917</u>	<u>\$ 13,586</u>	<u>\$ 42,390</u>	<u>\$ 246,893</u>
\$ -	\$ 464	\$ -	\$ -	\$ 1,343	\$ -	\$ -	\$ 1,343
-	-	-	-	31,571	-	-	31,571
-	-	-	-	62,870	-	-	62,870
-	20,328	-	-	20,328	-	-	20,328
<u>-</u>	<u>20,792</u>	<u>-</u>	<u>-</u>	<u>116,112</u>	<u>-</u>	<u>-</u>	<u>116,112</u>
-	-	-	-	-	3,935	-	3,935
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,935</u>	<u>-</u>	<u>3,935</u>
-	-	-	-	25,151	-	-	25,151
-	-	-	-	-	9,651	-	9,651
-	1,023	-	48,631	49,654	-	-	49,654
-	-	-	-	-	-	42,390	42,390
<u>-</u>	<u>1,023</u>	<u>-</u>	<u>48,631</u>	<u>74,805</u>	<u>9,651</u>	<u>42,390</u>	<u>126,846</u>
<u>\$ -</u>	<u>\$ 21,815</u>	<u>\$ -</u>	<u>\$ 48,631</u>	<u>\$ 190,917</u>	<u>\$ 13,586</u>	<u>\$ 42,390</u>	<u>\$ 246,893</u>

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

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ 116,696	\$ -
5800 State Program Revenues	-	-	2,758	-
5900 Federal Program Revenues	<u>254,220</u>	<u>24,599</u>	<u>364,428</u>	<u>42,173</u>
5020 Total Revenues	<u>254,220</u>	<u>24,599</u>	<u>483,882</u>	<u>42,173</u>
EXPENDITURES:				
Current:				
0011 Instruction	254,220	24,599	-	42,173
0035 Food Services	-	-	503,621	-
0036 Extracurricular Activities	-	-	-	-
Debt Service:				
0071 Principal on Long Term Debt	-	-	-	-
0072 Interest on Long Term Debt	-	-	-	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
6030 Total Expenditures	<u>254,220</u>	<u>24,599</u>	<u>503,621</u>	<u>42,173</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(19,739)	-
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	<u>-</u>	<u>-</u>	<u>14,836</u>	<u>-</u>
1200 Net Change in Fund Balance	-	-	(4,903)	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>30,054</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 25,151</u></u>	<u><u>\$ -</u></u>

270 ESEA VI, Pt B Rural & Low Income	410 State Textbook Fund	427 Expanding the 3E's Grant Program	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	699 Capital Projects Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 78,165	\$ 194,861	\$ 253	\$ -	\$ 195,114
-	116,464	1,270	-	120,492	-	-	120,492
23,285	-	-	-	708,705	-	-	708,705
23,285	116,464	1,270	78,165	1,024,058	253	-	1,024,311
23,285	115,441	1,270	-	460,988	-	-	460,988
-	-	-	-	503,621	-	-	503,621
-	-	-	71,550	71,550	-	-	71,550
-	-	-	-	-	170,000	-	170,000
-	-	-	-	-	62,009	-	62,009
-	-	-	-	-	-	354,953	354,953
23,285	115,441	1,270	71,550	1,036,159	232,009	354,953	1,623,121
-	1,023	-	6,615	(12,101)	(231,756)	(354,953)	(598,810)
-	-	-	-	14,836	232,009	-	246,845
-	1,023	-	6,615	2,735	253	(354,953)	(351,965)
-	-	-	42,016	72,070	9,398	397,343	478,811
\$ -	\$ 1,023	\$ -	\$ 48,631	\$ 74,805	\$ 9,651	\$ 42,390	\$ 126,846

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2016

	BALANCE SEPTEMBER 1 2015	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2016
GENERAL ACTIVITY FUND				
Assets:				
Cash and Temporary Investments	\$ 88,557	\$ 242,873	\$ 240,267	\$ 91,163
Liabilities:				
Due to Other Funds	\$ -	\$ 662	\$ -	\$ 662
Due to Student Groups	88,557	242,211	240,267	90,501
Total Liabilities	\$ 88,557	\$ 242,873	\$ 240,267	\$ 91,163
TOTAL AGENCY FUNDS				
Assets:				
Cash and Temporary Investments	\$ 88,557	\$ 242,873	\$ 240,267	\$ 91,163
Liabilities:				
Due to Other Funds	\$ -	\$ 662	\$ -	\$ 662
Due to Student Groups	88,557	242,211	240,267	90,501
Total Liabilities	\$ 88,557	\$ 242,873	\$ 240,267	\$ 91,163

REQUIRED T.E.A. SCHEDULES



HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2016

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2007 and prior years	Various	Various	\$ Various
2008	1.340000	0.093450	336,604,483
2009	1.130000	0.000000	280,918,803
2010	1.130000	0.000000	419,422,137
2011	1.130000	0.000000	333,290,085
2012	1.119046	0.000000	371,683,023
2013	1.119046	0.000000	379,481,412
2014	1.119046	0.000000	366,967,669
2015	1.119046	0.000000	324,274,213
2016 (School year under audit)	1.119046	0.000000	329,645,440
1000 TOTALS			

(10) Beginning Balance 9/1/2015	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2016
\$ 56,710	\$ -	\$ 1,630	\$ 84	\$ (2,064)	\$ 52,932
5,056	-	248	13	(7)	4,788
7,782	-	589	-	(19)	7,174
8,737	-	843	-	-	7,894
10,729	-	2,178	-	-	8,551
12,667	-	3,823	-	-	8,844
18,167	-	4,915	-	(105)	13,147
33,667	-	11,128	-	(223)	22,316
79,321	-	29,989	-	(2,135)	47,197
-	3,688,884	3,593,020	-	-	95,864
<u>\$ 232,836</u>	<u>\$ 3,688,884</u>	<u>\$ 3,648,363</u>	<u>\$ 97</u>	<u>\$ (4,553)</u>	<u>\$ 268,707</u>

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 125,500	\$ 125,500	\$ 116,696	\$ (8,804)
5800 State Program Revenues	3,400	3,400	2,758	(642)
5900 Federal Program Revenues	410,000	410,000	364,428	(45,572)
5020 Total Revenues	<u>538,900</u>	<u>538,900</u>	<u>483,882</u>	<u>(55,018)</u>
EXPENDITURES:				
0035 Food Services	<u>538,900</u>	<u>538,900</u>	<u>503,621</u>	<u>35,279</u>
6030 Total Expenditures	<u>538,900</u>	<u>538,900</u>	<u>503,621</u>	<u>35,279</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(19,739)	(19,739)
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	14,836	14,836
1200 Net Change in Fund Balances	-	-	(4,903)	(4,903)
0100 Fund Balance - September 1 (Beginning)	<u>30,054</u>	<u>30,054</u>	<u>30,054</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 30,054</u>	<u>\$ 30,054</u>	<u>\$ 25,151</u>	<u>\$ (4,903)</u>

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ 253	\$ 253
5020	Total Revenues	-	-	253	253
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	-	340,000	170,000	170,000
0072	Interest on Long Term Debt	-	62,009	62,009	-
6030	Total Expenditures	-	402,009	232,009	170,000
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(402,009)	(231,756)	170,253
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	-	232,009	232,009
1200	Net Change in Fund Balances	-	(402,009)	253	402,262
0100	Fund Balance - September 1 (Beginning)	9,398	9,398	9,398	-
3000	Fund Balance - August 31 (Ending)	\$ 9,398	\$ (392,611)	\$ 9,651	\$ 402,262

*REPORTS ON
INTERNAL CONTROLS, AND COMPLIANCE*





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**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**

Independent Auditor's Report

Board of Trustees
Hughes Springs Independent School District
871 Taylor St.
Hughes Springs, Texas 75656

Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standard 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, the business-type activities, and the aggregate remaining fund information of Hughes Springs Independent School District (the District) as of and for the year ended August 31, 2016 and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report on them dated November 25, 2016.

Internal Control Over Financial Reporting

Management of Hughes Springs Independent School District is responsible for establishing and maintaining effective internal controls over financial reporting. In planning and performing our audit of the financial statements, we considered Hughes Springs 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 Hughes Springs Independent School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hughes Springs Independent School District's internal control over financial reporting.

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 combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hughes Springs Independent School District's financial statements are free of 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 one instance of noncompliance (2016-1) or other matter that is 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.

This report is intended for the information of the district's trustees, the audit committee, the administration, Texas Education Agency, federal awarding agencies and pass-through entities, and is not intended to be used and should not be used by anyone other than these specified parties.

Caver and Setser, Inc.

CAVER and SETSER, Inc.
Certified Public Accountants

November 25, 2016

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

I. Summary of Auditor's Results:

1. Type of auditor's report issued on the financial statements: Unmodified
2. No internal control findings required to be reported in this schedule were disclosed in the audit of the financial statements.
3. Noncompliance which is material to the financial statements: None
4. Low risk auditee: Yes

II. Findings Related to the Financial Statements:

2016-01 Expenditures in Excess of Appropriations

Criteria: Expenditures should not exceed budgetary guidelines set by the governing body.

Condition Found: Expenditures for the General Fund exceeded budgetary guidelines in functions 11 (\$7,013) and 51 (\$14,478). Overall the General Fund's expenditures were \$65,655 less than the total budgetary expenditures.

Effect: Mandated limits for expenditures were exceeded.

Cause: Budget amendments were not made in a timely manner.

Recommendation: The District should review actual versus budgetary amounts by function in order to comply with budgetary guidelines.

HUGHES SPRINGS INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2016

PRIOR YEAR'S FINDINGS/NONCOMPLIANCE

No findings or questioned costs in the prior year.

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

CORRECTIVE ACTION:

2016-01 Expenditures in Excess of Appropriations

Actions: The District will monitor and amend the budget before expenditures are made.

Contact Person: Sarah Dildine

Anticipated Completion Date: Immediately

SCHOOLS FIRST QUESTIONNAIRE

Hughes Springs Independent School District

Fiscal Year 2016

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	No
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	78090
SF11	Net Pension Assets (1920) at fiscal year-end.	
SF12	Net Pension Liabilities (2540) at fiscal year-end.	1970193
SF13	Pension Expense (6147) at fiscal year-end.	625066



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REPORT TO MANAGEMENT AND THOSE CHARGED WITH GOVERNANCE
INDICATING THAT NO MATERIAL WEAKNESSES IN INTERNAL CONTROLS
OVER FINANCIAL REPORTING WERE IDENTIFIED IN THE AUDIT

Board of Trustees
Hughes Springs Independent School District

Members of the Board:

We have audited the financial statements of the governmental activities, the business-type activities and the aggregate remaining fund information of Hughes Springs Independent School District for the year ended August 31, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and the Uniform Guidance, as well as certain information related to the planned timing of our audit. We previously communicated this to management and to you via our engagement letter and oral statements. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hughes Springs Independent School District are described in the Notes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended August 31, 2016. We noted no transactions entered into by Hughes Springs Independent School District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

In planning and performing our audit of the financial statements of Hughes Springs Independent School District as of and for the year ended August 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the District's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above.

State of Texas law sections 44.002 through 44.006 of the *Texas Education Code* establish the legal basis for budget development in school districts. The district budget must be prepared, published for public comment, and adopted by a date set by the state board of education, currently August 31. Budgets for the General Fund, Food Service Fund, and Debt Service Fund must be included in the official district budget.

We identified one compliance deficiency, that we do not consider a material weakness as described above, relating to failure to adopt the Debt Service budget by August 31 (the District, at a later date, adopted a Debt Service budget). We recommend the District adopt a budget for the debt service fund at the beginning of each fiscal year concurrently with the other appropriated fund's budgets.

Significant Accounting Policies

We noted no transactions entered into by the District during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. We evaluated the key factors and assumptions used to develop the estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole. For the current audit period, management and the audit team agreed on the appropriateness of all entries made.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 25, 2016.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of the audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Contracting Audit

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to contracting or retention as the District auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition of our contractual agreement or future retention.

Other Matters

We applied certain limited procedures to the Budget to Actual comparison and various pension exhibits, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquires of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the District's combining statements, and individual fund statements, which accompany the financial statements but are not RSI. With respect to the supplementary information, we

made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate information to the underlying accounting record used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the District's Management Discussion and Analysis, which accompany the financial statements but are not RSI. Such information 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.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit. All information needs were met in a complete and expedient manner. I wish to commend the Superintendent and Business Manager as well as the other administration staff for the quality in which they perform these duties. In addition, I wish to commend the directors of each department for the efficient manner that they assisted our team during the audit and the receptiveness to comments and suggestions we may have made.

This communication is intended solely for the information and use of management, the Board of Trustees, others within the organization, the School Financial Audits Division of Texas Education Agency, and is not intended to be and should not be used by anyone other than these specified parties.

Caver and Setser, Inc.

Caver and Setser, Inc.
Certified Public Accountants

November 25, 2016