# HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

*ANNUAL FINANCIAL REPORT*

*FOR THE YEAR ENDED AUGUST 31, 2016*

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Hamshire-Fannett Independent School District
Annual Financial Report
For The Year Ended August 31, 2016

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*Introductory Section*

CERTIFICATE OF BOARD

| Hamshire-Fannett Independent School District | Jefferson | 123-914 |
|---|---|---|
| Name of School District | County | Co.-Dist. Number |

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (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 23 day of January, 2017.

Signature of Board Secretary

Signature of Board President

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

*Financial Section*

**WEST, DAVIS & COMPANY, LLP**
11824 Jollyville Road, Suite 100
Austin, Texas 78759

## Independent Auditors' Report

To the Board of Trustees
Hamshire-Fannett Independent School District
Hamshire, Texas

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinions

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

**Emphasis of Matter**

*Change in Accounting Principle*

As described in Note A to the financial statements, in 2016, Hamshire-Fannett Independent School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 72, *Fair Value.* Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2016, Hamshire-Fannett Independent School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 76, *Hierarchy of GAAP.* Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2016, Hamshire-Fannett Independent School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 77, *Tax Abatements.* Our opinion is not modified with respect to this matter.

**Other Matters**

*Required Supplementary Information*

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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hamshire-Fannett Independent School District's basic financial statements. The introductory section and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards,* Subpart F -- Audit Requirements (Uniform Guidance) and is also not a required part of the basic financial statements. The accompanying other supplementary information is presented for purposes of additional analysis and is also not a required part of the basic financial statements.

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2017 on our consideration of Hamshire-Fannett Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hamshire-Fannett Independent School District's internal control over financial reporting and compliance.

West, Davis & Company, LLP
Austin, Texas
January 20, 2017

## Hamshire-Fannett Independent School District

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Hamshire-Fannett Independent School District (the District), discuss and analyze the District's financial performance for the fiscal year ended August 31, 2016. Please read it in conjunction with the independent auditors' report on page 2, and the District's Basic Financial Statements, which begin on page 10. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

### 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 10 and 11). 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 12) 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.

The notes to the financial statements (starting on page 17) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

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 10. 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 or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully 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, we classify the District's activities as Governmental activities:

- 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 12 and provide detailed information about the most significant funds–not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind

Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District has one kind of fund, governmental.

- 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.

**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 a separate Statement of Fiduciary Net Position on page 16. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Net position of the District's governmental activities increased from $14.2 million to $14.4 million. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was $2.9 million at August 31, 2016.

**Table I**
**Hamshire-Fannett Independent School District**

**NET POSITION**
in thousands

| | Governmental Activities | |
|---|---|---|
| | 2016 | 2015 |
| Current and other assets | 15,129 | 24,709 |
| Capital assets | 29,799 | 19,715 |
| Total assets | 44,928 | 44,424 |
| Deferred Outflow Related to Pensions | 1,260 | 308 |
| Long-term liabilities | 28,470 | 28,202 |
| Other liabilities | 3,176 | 1,955 |
| Total liabilities | 31,646 | 30,157 |
| Deferred Inflow Related to Pensions | 188 | 364 |
| Net position: | | |
| Invested in capital assets, net of related debt | 11,284 | 11,171 |
| Restricted | 184 | 122 |
| Unrestricted | 2,886 | 2,918 |
| Total net position | 14,354 | 14,211 |

**Table II**
**Hamshire-Fannett Independent School District**

**CHANGES IN NET POSITION**
in thousands

| | Governmental Activities | |
|---|---|---|
| | 2016 | 2015 |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | 541 | 551 |
| Operating grants and contributions | 1,592 | 1,525 |
| General revenues: | | |
| Maintenance and operations taxes | 7,762 | 8,254 |
| Debt service taxes | 1,708 | 1,317 |
| State aid - formula grants | 6,840 | 5,842 |
| Investment Earnings | 54 | 6 |
| Miscellaneous | 107 | 2,722 |
| Total Revenues | 18,604 | 20,217 |
| Expenses: | | |
| Instruction, curriculum and media services | 9,183 | 8,333 |
| Instructional and school leadership | 1,120 | 1,044 |
| Student support services | 1,424 | 1,312 |
| Child nutrition | 1,121 | 1,045 |
| Extracurricular activities | 988 | 1,018 |
| General administration | 706 | 718 |
| Plant maintenance, security and data processing | 2,718 | 2,625 |
| Debt services | 916 | 390 |
| Other | 285 | 286 |
| Total Expenses | 18,461 | 16,771 |
| Change in Net Position | 143 | 3446 |

**NET PENSION LIABILITY (GASB 68)**

The District's net pension liability at year end totaled $2.5 million

The District's net pension liability increased $1.3 million over the prior year.

## THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of $11 million, which is $10.9 million less than last year's total of $22 million. This was primarily a result of $11 million in capital projects expenditures.

Over the course of the year, the Board of Trustees revised the District's budget several times. The significant amendments served to increase Capital Outlay by $0.6 million.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At year-end, the District had $29.8 million invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance.

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

### Debt

At year-end, the District had $23.3 million in bonds outstanding versus $24.15 million last year.

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

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

The District's elected officials considered many factors when setting the fiscal-year 2017 budget and tax rates. Those factors include property values, changes in enrollment, the economy, and legislative mandates. Student enrollment was budgeted to remain about the same, with the actual student enrollment for the first semester of 2016-2017 being slightly down. There was a decrease in property values and the tax rate decreased slightly from the previous year for Interest and Sinking and increased slightly for Maintenance and Operations. The District will incur unexpected expenses from the cost of rebuilding the Wastewater Collection System.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, 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 Hamshire-Fannett Independent School District, P.O. Box 223, 12702 Second Street, Hamshire, Texas 77622.

*Basic Financial Statements*

# HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

*STATEMENT OF NET POSITION*
*AUGUST 31, 2016*

| Data Control Codes | | 1 Governmental Activities |
|---|---|---|
| | **ASSETS:** | |
| 1110 | *Cash and Cash Equivalents* | $ 161,162 |
| 1120 | *Current Investments* | 13,025,627 |
| 1225 | *Property Taxes Receivable (Net)* | 922,726 |
| 1240 | *Due from Other Governments* | 714,952 |
| 1290 | *Other Receivables (Net)* | 38,734 |
| 1410 | *Unrealized Expenses* | 265,477 |
| | Capital Assets: | |
| 1510 | *Land* | 346,253 |
| 1520 | *Buildings and Improvements, Net* | 11,431,655 |
| 1530 | *Furniture and Equipment, Net* | 2,586,270 |
| 1550 | *Capital Lease Assets, Net* | 2,129,943 |
| 1580 | *Construction in Progress* | 12,516,779 |
| 1590 | *Infrastructure, Net* | 788,367 |
| 1000 | Total Assets | 44,927,945 |
| | **DEFERRED OUTFLOWS OF RESOURCES:** | |
| 1705 | *Deferred Outflow Related to Pensions* | 1,260,634 |
| 1700 | Total Deferred Outflows of Resources | 1,260,634 |
| | **LIABILITIES:** | |
| 2110 | *Accounts Payable* | 1,995,312 |
| 2140 | *Interest Payable* | 33,352 |
| 2165 | *Accrued Liabilities* | 618,481 |
| 2180 | *Due to Other Governments* | 48,432 |
| 2300 | *Unearned Revenue* | 480,274 |
| | Noncurrent Liabilities: | |
| 2501 | *Due Within One Year* | 1,099,182 |
| 2502 | *Due in More Than One Year* | 24,840,120 |
| 2540 | *Net Pension Liability* | 2,530,823 |
| 2000 | Total Liabilities | 31,645,976 |
| | **DEFERRED INFLOWS OF RESOURCES:** | |
| 2605 | *Deferred Inflow Related to Pensions* | 188,326 |
| 2600 | Total Deferred Inflows of Resources | 188,326 |
| | **NET POSITION:** | |
| 3200 | Net Investment in Capital Assets | 11,284,442 |
| | Restricted For: | |
| 3850 | Debt Service | 183,446 |
| 3900 | Unrestricted | 2,886,389 |
| 3000 | Total Net Position | $ 14,354,277 |

The accompanying notes are an integral part of this statement.

# HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

*STATEMENT OF ACTIVITIES*
*FOR THE YEAR ENDED AUGUST 31, 2016*

| Data Control Codes | Functions/Programs | 1 Expenses | 3 Program Revenues: Charges for Services | 4 Program Revenues: Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Position: Governmental Activities |
|---|---|---|---|---|---|
| | Governmental Activities: | | | | |
| 11 | *Instruction* | $ 8,774,371 | $ 19,060 | $ 1,034,726 | $ (7,720,585) |
| 12 | *Instructional Resources and Media Services* | 376,855 | -- | 15,600 | (361,255) |
| 13 | *Curriculum and Staff Development* | 32,198 | -- | 6,470 | (25,728) |
| 21 | *Instructional Leadership* | 166,405 | -- | 12,094 | (154,311) |
| 23 | *School Leadership* | 953,252 | -- | 47,534 | (905,718) |
| 31 | *Guidance, Counseling, & Evaluation Services* | 381,382 | -- | 16,810 | (364,572) |
| 33 | *Health Services* | 121,362 | -- | 4,025 | (117,337) |
| 34 | *Student Transportation* | 921,789 | -- | 2,673 | (919,116) |
| 35 | *Food Service* | 1,120,799 | 449,979 | 353,701 | (317,119) |
| 36 | *Cocurricular/Extracurricular Activities* | 988,312 | 64,117 | 22,601 | (901,594) |
| 41 | *General Administration* | 705,587 | -- | 24,541 | (681,046) |
| 51 | *Facilities Maintenance and Operations* | 2,558,189 | 8,000 | 47,582 | (2,502,607) |
| 52 | *Security and Monitoring Services* | 12,602 | -- | -- | (12,602) |
| 53 | *Data Processing Services* | 146,924 | -- | 3,692 | (143,232) |
| 61 | *Community Services* | 200 | -- | 199 | (1) |
| 72 | *Interest on Long-term Debt* | 912,159 | -- | -- | (912,159) |
| 73 | *Bond Issuance Costs and Fees* | 3,583 | -- | -- | (3,583) |
| 93 | *Payments Related to Shared Services Arrangements* | 189,655 | -- | -- | (189,655) |
| 95 | *Payments to Juvenile Justice Alternative Ed. Programs* | 18,000 | -- | -- | (18,000) |
| 99 | *Other Intergovernmental Charges* | 77,470 | -- | -- | (77,470) |
| TG | Total Governmental Activities | 18,461,094 | 541,156 | 1,592,248 | (16,327,690) |
| TP | Total Primary Government | $ 18,461,094 | $ 541,156 | $ 1,592,248 | (16,327,690) |
| | General Revenues: | | | | |
| MT | *Property Taxes, Levied for General Purposes* | | | | 7,762,113 |
| DT | *Property Taxes, Levied for Debt Service* | | | | 1,708,164 |
| IE | *Investment Earnings* | | | | 53,847 |
| GC | *Grants and Contributions Not Restricted to Specific Programs* | | | | 6,839,837 |
| MI | *Miscellaneous* | | | | 106,856 |
| TR | Total General Revenues | | | | 16,470,817 |
| CN | Change in Net Position | | | | 143,127 |
| NB | Net Position - Beginning | | | | 14,211,150 |
| NE | Net Position - Ending | | | | $ 14,354,277 |

The accompanying notes are an integral part of this statement.

# HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

*BALANCE SHEET - GOVERNMENTAL FUNDS*
*AUGUST 31, 2016*

| Data Control Codes | | 10 General Fund | 60 Capital Projects | Other Governmental Funds | 98 Total Governmental Funds |
|---|---|---|---|---|---|
| | **ASSETS:** | | | | |
| 1110 | *Cash and Cash Equivalents* | $ 62,377 | $ 74,972 | $ 23,813 | $ 161,162 |
| 1120 | *Current Investments* | 4,115,061 | 8,740,764 | 169,802 | 13,025,627 |
| 1225 | *Taxes Receivable, Net* | 853,830 | -- | 68,896 | 922,726 |
| 1240 | *Due from Other Governments* | 447,789 | -- | 267,163 | 714,952 |
| 1260 | *Due from Other Funds* | 221,144 | -- | 57,980 | 279,124 |
| 1290 | *Other Receivables* | 15,451 | -- | 23,283 | 38,734 |
| 1410 | *Unrealized Expenditures* | 265,477 | -- | -- | 265,477 |
| 1000 | Total Assets | 5,981,129 | 8,815,736 | 610,937 | 15,407,802 |
| | **LIABILITIES:** | | | | |
| | Current Liabilities: | | | | |
| 2110 | *Accounts Payable* | $ 234,854 | $ 1,716,564 | $ 43,894 | $ 1,995,312 |
| 2120 | *Short-Term Debt Payable* | 31,320 | -- | -- | 31,320 |
| 2150 | *Payroll Deductions & Withholdings* | 77,067 | -- | 2,530 | 79,597 |
| 2160 | *Accrued Wages Payable* | 426,329 | -- | 33,390 | 459,719 |
| 2170 | *Due to Other Funds* | 14,393 | -- | 264,731 | 279,124 |
| 2180 | *Due to Other Governments* | 25,658 | -- | 22,774 | 48,432 |
| 2200 | *Accrued Expenditures* | 47,845 | -- | -- | 47,845 |
| 2300 | *Unearned Revenue* | 1,334,103 | -- | 68,895 | 1,402,998 |
| 2000 | Total Liabilities | 2,191,569 | 1,716,564 | 436,214 | 4,344,347 |
| | **FUND BALANCES:** | | | | |
| | Restricted Fund Balances: | | | | |
| 3450 | *Federal/State Funds Grant Restrictions* | -- | -- | 23 | 23 |
| 3470 | *Capital Acquisitions & Contractual Obligations* | -- | 7,099,172 | -- | 7,099,172 |
| 3480 | *Retirement of Long-Term Debt* | -- | -- | 174,700 | 174,700 |
| | Committed Fund Balances: | | | | |
| 3545 | *Other Committed Fund Balance* | 720,000 | -- | -- | 720,000 |
| 3600 | Unassigned | 3,069,560 | -- | -- | 3,069,560 |
| 3000 | Total Fund Balances | 3,789,560 | 7,099,172 | 174,723 | 11,063,455 |
| 4000 | Total Liabilities and Fund Balances | $ 5,981,129 | $ 8,815,736 | $ 610,937 | $ 15,407,802 |

The accompanying notes are an integral part of this statement.

# HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

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

| | | |
|---|---|---|
| Total fund balances - governmental funds balance sheet | $ | 11,063,455 |
| Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because: | | |
| Capital assets used in governmental activities are not reported in the funds. | | 29,799,267 |
| Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. | | 922,724 |
| Payables for bond principal which are not due in the current period are not reported in the funds. | | (23,300,000) |
| Payables for capital leases which are not due in the current period are not reported in the funds. | | (2,313,997) |
| Payables for bond interest which are not due in the current period are not reported in the funds. | | (33,352) |
| Recognition of the District's proportionate share of the net pension liability is not reported in the funds. | | (2,530,823) |
| Deferred Resource Inflows related to the pension plan are not reported in the funds. | | (188,326) |
| Deferred Resource Outflows related to the pension plan are not reported in the funds. | | 1,260,634 |
| Bond premiums are amortized in the SNA but not in the funds. | | (325,305) |
| Net position of governmental activities - Statement of Net Position | $ | 14,354,277 |

The accompanying notes are an integral part of this statement.

# HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

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

| Data Control Codes | | 10 General Fund | 60 Capital Projects | Other Governmental Funds | 98 Total Governmental Funds |
|---|---|---|---|---|---|
| | **REVENUES:** | | | | |
| 5700 | *Local and Intermediate Sources* | $ 7,814,221 | $ 38,227 | $ 2,194,748 | $ 10,047,196 |
| 5800 | *State Program Revenues* | 6,878,607 | -- | 208,130 | 7,086,737 |
| 5900 | *Federal Program Revenues* | 229,853 | -- | 798,998 | 1,028,851 |
| 5020 | Total Revenues | 14,922,681 | 38,227 | 3,201,876 | 18,162,784 |
| | **EXPENDITURES:** | | | | |
| | Current: | | | | |
| 0011 | *Instruction* | 7,268,513 | -- | 602,069 | 7,870,582 |
| 0012 | *Instructional Resources and Media Services* | 282,256 | -- | -- | 282,256 |
| 0013 | *Curriculum and Staff Development* | 25,730 | -- | 6,454 | 32,184 |
| 0021 | *Instructional Leadership* | 154,544 | -- | 4,050 | 158,594 |
| 0023 | *School Leadership* | 861,152 | -- | -- | 861,152 |
| 0031 | *Guidance, Counseling, & Evaluation Services* | 344,559 | -- | -- | 344,559 |
| 0033 | *Health Services* | 106,407 | -- | -- | 106,407 |
| 0034 | *Student Transportation* | 904,493 | -- | 2,669 | 907,162 |
| 0035 | *Food Service* | -- | -- | 919,180 | 919,180 |
| 0036 | *Cocurricular/Extracurricular Activities* | 777,688 | -- | 37,430 | 815,118 |
| 0041 | *General Administration* | 678,134 | -- | -- | 678,134 |
| 0051 | *Facilities Maintenance and Operations* | 2,293,663 | -- | 4,520 | 2,298,183 |
| 0052 | *Security and Monitoring Services* | 10,729 | -- | -- | 10,729 |
| 0053 | *Data Processing Services* | 84,087 | -- | -- | 84,087 |
| 0061 | *Community Services* | -- | -- | 200 | 200 |
| 0071 | *Principal on Long-term Debt* | 194,503 | -- | 850,000 | 1,044,503 |
| 0072 | *Interest on Long-term Debt* | 107,103 | -- | 837,666 | 944,769 |
| 0073 | *Bond Issuance Costs and Fees* | 2,014 | -- | 1,569 | 3,583 |
| 0081 | *Capital Outlay* | 394,326 | 11,054,095 | -- | 11,448,421 |
| 0093 | *Payments to Shared Service Arrangements* | 189,655 | -- | -- | 189,655 |
| 0095 | *Payments to Juvenile Justice Altermative* | | | | |
| 0095 | *Education Programs* | 18,000 | -- | -- | 18,000 |
| 0099 | *Other Intergovernmental Charges* | 77,470 | -- | -- | 77,470 |
| 6030 | Total Expenditures | 14,775,026 | 11,054,095 | 3,265,807 | 29,094,928 |
| 1100 | Excess (Deficiency) of Revenues Over (Under) | | | | |
| 1100 | Expenditures | 147,655 | (11,015,868) | (63,931) | (10,932,144) |
| | Other Financing Sources and (Uses): | | | | |
| 7915 | *Transfers In* | -- | -- | 112,001 | 112,001 |
| 8911 | *Transfers Out* | (112,001) | -- | -- | (112,001) |
| 7080 | Total Other Financing Sources and (Uses) | (112,001) | -- | 112,001 | -- |
| 1200 | Net Change in Fund Balances | 35,654 | (11,015,868) | 48,070 | (10,932,144) |
| 0100 | Fund Balances - Beginning | 3,753,906 | 18,115,040 | 126,653 | 21,995,599 |
| 3000 | Fund Balances - Ending | $ 3,789,560 | $ 7,099,172 | $ 174,723 | $ 11,063,455 |

The accompanying notes are an integral part of this statement.

# HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED AUGUST 31, 2016*

| | | |
|---|---|---|
| Net change in fund balances - total governmental funds | $ | (10,932,144) |
| Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because: | | |
| Capital outlays are not reported as expenses in the SOA. | | 11,620,472 |
| The depreciation of capital assets used in governmental activities is not reported in the funds. | | (1,535,966) |
| Certain property tax revenues are deferred in the funds. This is the change in these amounts this year. | | 124,941 |
| Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA. | | 850,000 |
| Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA. | | 194,503 |
| (Increase) decrease in accrued interest from beginning of period to end of period. | | 5,916 |
| Bond premiums are reported in the funds but not in the SOA. | | 26,694 |
| Implementing GASB 68 required certain expenditures to be de-expended and recorded as deferred resource c | | 211,998 |
| Pension contributions made after the measurement date but in current FY were de-expended and reduced NP | | 1,088 |
| The District's share of the unrecognized deferred inflows and outflows for the pension plan was amortized. | | 74,942 |
| Pension expense relating to GASB 68 is recorded in the SOA but not in the funds. | | (499,317) |
| Change in net position of governmental activities - Statement of Activities | $ | 143,127 |

The accompanying notes are an integral part of this statement.

# HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

*STATEMENT OF FIDUCIARY NET POSITION*
*FIDUCIARY FUNDS*
*AUGUST 31, 2016*

| Data Control Codes | | Agency Fund Student Activity |
|---|---|---|
| | **ASSETS:** | |
| 1110 | *Cash and Cash Equivalents* | $ 287,331 |
| 1000 | Total Assets | 287,331 |
| | **LIABILITIES:** | |
| | Current Liabilities: | |
| 2190 | *Due to Student Groups* | $ 287,331 |
| 2000 | Total Liabilities | 287,331 |
| | **NET POSITION:** | |
| 3000 | Total Net Position | $ - |

The accompanying notes are an integral part of this statement.

A. Summary of Significant Accounting Policies

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

1. Reporting Entity

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

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

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

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

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

The District reports the following major governmental funds:

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

Capital Projects Fund: This fund accounts for the proceeds from the voter approved $19.425 million building bonds and the expenditures made to construct and renovate District facilities.

In addition, the District reports the following fund types:

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

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

b. Measurement Focus, Basis of Accounting

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

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

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

3. Financial Statement Amounts

a. Property Taxes

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

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

b. Inventories and Prepaid Items

Inventories of supplies on the balance sheet are stated at weighted average cost, while inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Inventory items are recorded as expenditures when they are consumed. Supplies are used for almost all functions of activity, while food commodities are used only in the food service program. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and deferred revenue when received. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount. Inventories also include plant maintenance and operation supplies as well as instructional supplies.

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

c. Capital Assets

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

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

| Asset Class | Estimated Useful Lives |
|---|---|
| Infrastructure | 30 |
| Buildings | 50 |
| Building Improvements | 20 |
| Vehicles | 2-15 |
| Office Equipment | 3-15 |
| Computer Equipment | 3-15 |

d. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds balance sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

e. Receivable and Payable Balances

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

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

f. Interfund Activity

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

g. Use of Estimates

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

h. Data Control Codes

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

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

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

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

Committed Fund Balance relates to the District's insurance deductible in the event of a catastrophic loss.

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

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

j. Net Position Flow Assumption

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

k. Fund Balance Flow Assumptions

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

4. Pensions

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

5. New Accounting Standards Adopted

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

-- Statement No. 72, *Fair Value Measurement and Application*
-- Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*
-- Statement No. 77, *Tax Abatement Disclosures*

a. Statement No. 72 requires state and local governments to measure investments at fair value using a consistent definition and valuation techniques; also defines what assets and liabilities governments should measure at fair value and expands fair value disclosures in financial disclosure notes. While the Statement generally requires restatement of prior period balances in the year of implementation, the nature of the District's investments was such that their carrying amount was not affected.

b. The GAAP hierarchy prioritizes guidance governments follow when preparing U.S. GAAP financial statements. Statement No. 76 reduces authoritative GAAP hierarchy from four categories to two and lists the order of priority for pronouncements to which a government should look for guidance.

c. Statement No. 77 requires governments granting tax abatements to individuals and businesses to disclose program information in the notes to the financial statements through the agreement's duration and also requires disclosures about tax abatements entered into by other governments that reduce the reporting government's tax revenue. Prior year balances were not restated because there are no tax abatements associated with the District or any other government which affect the District's tax revenue.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

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

| Violation | Action Taken |
|---|---|
| None reported | Not applicable |

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

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

| Fund Name | Deficit Amount | Remarks |
|---|---|---|
| None reported | Not applicable | Not applicable |

C. Deposits and Investments

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

1. Cash Deposits:

At August 31, 2016, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was $161,162 and the bank balance was $179,852. The District's cash deposits at August 31, 2016 and during the year ended August 31, 2016, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

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

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

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

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

* Not all assets meeting the definition of an investment are required to be reported at fair value. Including among excepted investments are certain investments held by 2a7 like external investment pools. As detailed below, the District has invested funds in specific 2a7 like external investment pools that are valued at amortized cost and not subject to the fair value hierarchy levels.

** Certificates of deposits ("CD's") at FDIC insured banks are not subject to the fair value hierarchy levels.

The District's investment at August 31, 2016 is shown below.

| Investment | Fair Value Using Level | Rating | Maturity | Fair Value | Percentage |
|---|---|---|---|---|---|
| Lone Star | * | AAA | 23 days weighted average | $ 2,617,236 | 20.09% |
| TexSTAR | * | AAAm | 40 days weighted average | 504,736 | 3.87% |
| TexPool | * | AAAm | 44 days weighted average | 1,565,659 | 12.02% |
| Repurchase Agreement | 2 | Not Rated | Less than one year | 8,337,996 | 64.01% |
| Total Investments | | | | $ 13,025,627 | 100.00% |

3. Analysis of Specific Deposit and Investment Risks

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

a. Credit Risk

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

b. Custodial Credit Risk

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

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

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

c. Concentration of Credit Risk

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

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

Investment Accounting Policy

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

Public Funds Investment Pools

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

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

TexSTAR

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

Lone Star

The Lone Star Investment Pool (Lone Star) is a public funds investment pool created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. Lone Star is administered by First Public, a subsidiary of the Texas Association of School Boards (TASB), with Standish and American Beacon Advisors managing the investment and reinvestment of Lone Star's

assets. State Street Bank provides custody and valuation services to Lone Star. All of the board of trustees' eleven members are Lone Star participants by either being employees or elected officials of a participant. Lone Star has established an advisory board composed of both pool members and non-members. Lone Star is rated AAA by Standard and Poor's and operated in a manner consistent with the the SEC's Rule 2a7 of the Investment Company Act of 1940. The District is invested in the Government Overnight Fund of Lone Star which seeks to maintain a net asset value of one dollar. Lone Star has 3 different funds: Government Overnight, Corporate Overnight and Corporate Overnight Plus. Government and Corporate Overnight maintain a net asset value of one dollar and the Corporate Overnight Plus maintains a net asset value of 50 cents.

TexPool

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

D. Capital Assets

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

| | Beginning Balances | Increases | Decreases | Ending Balances |
|---|---|---|---|---|
| Governmental activities: | | | | |
| *Capital assets not being depreciated:* | | | | |
| Land | $ 241,579 | $ 104,674 | $ -- | $ 346,253 |
| Construction in progress | 1,457,511 | 11,100,268 | 41,000 | 12,516,779 |
| Total capital assets not being depreciated | 1,699,090 | 11,204,942 | 41,000 | 12,863,032 |
| *Capital assets being depreciated:* | | | | |
| Buildings and improvements | 29,878,544 | 284,479 | -- | 30,163,023 |
| Equipment | 3,767,788 | 172,051 | -- | 3,939,839 |
| Capital leases assets | 2,692,693 | -- | -- | 2,692,693 |
| Infrastructure | 2,363,984 | -- | -- | 2,363,984 |
| Total capital assets being depreciated | 38,703,009 | 456,530 | -- | 39,159,539 |
| Less accumulated depreciation for: | | | | |
| Buildings and improvements | (17,892,240) | (839,128) | -- | (18,731,368) |
| Equipment | (1,043,525) | (310,044) | -- | (1,353,569) |
| Capital leases assets | (273,741) | (289,009) | -- | (562,750) |
| Infrastructure | (1,477,832) | (97,785) | -- | (1,575,617) |
| Total accumulated depreciation | (20,687,338) | (1,535,966) | -- | (22,223,304) |
| Total capital assets being depreciated, net | 18,015,671 | (1,079,436) | -- | 16,936,235 |
| Governmental activities capital assets, net | $ 19,714,761 | $ 10,125,506 | $ 41,000 | $ 29,799,267 |

Depreciation was charged to functions as follows:

| | | |
|---|---|---|
| Instruction | $ | 545,297 |
| Instructional Resources and Media Services | | 82,881 |
| School Leadership | | 52,760 |
| Guidance, Counseling, & Evaluation Services | | 20,915 |
| Health Services | | 12,133 |
| Student Transportation | | 3,158 |
| Food Services | | 191,500 |
| Extracurricular Activities | | 164,078 |
| General Administration | | 5,298 |
| Plant Maintenance and Operations | | 395,980 |
| Data Processing Services | | 61,966 |
| | $ | 1,535,966 |

E. Interfund Balances and Activities

1. Due To and From Other Funds

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

| Due To Fund | Due From Fund | | Amount | Purpose |
|---|---|---|---|---|
| General Fund | Other Governmental Funds | $ | 221,144 | Short-term advances |
| Other Governmental Funds | General Fund | | 14,393 | Short-term advances |
| Other Governmental Funds | Other Governmental Funds | | 43,587 | Short-term advances |
| | Total | $ | 279,124 | |

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

2. Transfers To and From Other Funds

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

| Transfers From | Transfers To | | Amount | Reason |
|---|---|---|---|---|
| General fund | Food service fund | $ | 112,001 | Supplement operations |
| | Total | $ | 112,001 | |

F. Long-Term Obligations

1. Long-Term Obligation Activity

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

| | Beginning Balance | Increases | Decreases | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| Governmental activities: | | | | | |
| General obligation bonds | $ 24,150,000 | $ -- | $ 850,000 | $ 23,300,000 | $ 905,000 |
| Capital leases | 2,508,500 | -- | 194,503 | 2,313,997 | 194,182 |
| Premium on bonds issued | 351,999 | -- | 26,694 | 325,305 | -- |
| | 27,010,499 | -- | 1,071,197 | 25,939,302 | 1,099,182 |
| Net Pension Liability * | 1,191,247 | 1,551,574 | 211,998 | 2,530,823 | -- |
| Total governmental activities | $ 28,201,746 | $ 1,551,574 | $ 1,283,195 | $ 28,470,125 | $ 1,099,182 |

Per statement of net position:

| | |
|---|---|
| Due within one year | $ 1,099,182 |
| Due in more than one year | 24,840,120 |
| | $ 25,939,302 |

The following table displays total principal debt outstanding as of the year end.

| Date of Issue | Issue | Interest Rates | Original Issue | Maturity Date | Debt Principal |
|---|---|---|---|---|---|
| 8/1/2012 | Series 2012 | 1.0 to 2.75% | $ 2,035,000 | 8/15/2032 | $ 1,720,000 |
| 9/3/2014 | Series 2014 | 3.5 to 4.3 | 3,215,000 | 8/15/2024 | 2,630,000 |
| 7/15/2015 | Series 2015 | 3.0 to 4.0 | 19,425,000 | 8/15/2035 | 18,950,000 |
| | | | | | $ 23,300,000 |

* Other long-term liabilities

| Liability | Activity Type | Fund |
|---|---|---|
| Net Pension Liability * | Governmental | General |

2. Debt Service Requirements

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

| | Governmental Activities | | |
|---|---|---|---|
| Year Ending August 31, | Principal | Interest | Total |
| 2017 | $ 905,000 | $ 758,750 | $ 1,663,750 |
| 2018 | 935,000 | 728,750 | 1,663,750 |
| 2019 | 970,000 | 697,625 | 1,667,625 |
| 2020 | 1,000,000 | 665,350 | 1,665,350 |
| 2021 | 1,035,000 | 632,100 | 1,667,100 |
| 2022-2026 | 5,710,000 | 2,621,794 | 8,331,794 |
| 2027-2031 | 6,630,000 | 1,697,175 | 8,327,175 |
| 2032-2035 | 6,115,000 | 543,375 | 6,658,375 |
| Totals | $ 23,300,000 | $ 8,344,919 | $ 31,644,919 |

3. Advance Refunding of Debt

GASB Statement No. 7, "Advance Refundings Resulting in Defeasance of Debt," provides that refunded debt and assets placed in escrow for the payment of related debt service be excluded from the financial statements. As of August 31, 2016, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments are as follows.

| Bond Issue | Amount |
|---|---|
| Series 1998 | $ 1,605,000 |
| Series 2004 | 2,730,000 |
| Total | $ 4,335,000 |

4. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of August 31, 2016, as follows:

| Year Ending August 31: | |
|---|---|
| 2017 | $ 194,182 |
| 2018 | 168,941 |
| 2019 | 170,306 |
| 2020 | 171,681 |
| 2021 | 173,068 |
| 2022-2026 | 886,531 |
| 2027-2029 | 549,288 |
| Total Minimum Rentals | $ 2,313,997 |

The effective interest rate on capital leases is 4.390%.

G. Risk Management

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

H. Pension Plan

1. Plan Description

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

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

2. Pension Plan Fiduciary Net Position

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

3. Benefits Provided

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

4. Contributions

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

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

**Contribution Rates**

| | 2015 | 2016 |
|---|---|---|
| Member | 6.7% | 7.2% |
| Non-Employer Contributing Entity (NECE - State) | 6.8% | 6.8% |
| Employers | 6.8% | 6.8% |

| | | |
|---|---|---|
| District's 2016 Employer Contributions | $ | 213,660 |
| District's 2016 Member Contributions | $ | 635,020 |
| NECE 2015 On-Behalf Contributions to District | $ | 488,048 |

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

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

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

--- During a new member's first 90 days of employment.

--- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.

--- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

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

--- When a school district or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

5. Actuarial Assumptions

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

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

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

6. Discount Rate

The discount rate used to measure the total pension liability was 8%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore,

the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building block method in which best estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

**Teacher Retirement System of Texas**
**Asset Allocation and Long-Term Expected Real Rate of Return**
**As of August 31, 2015**

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

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

7. Discount Rate Sensitivity Analysis

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

| | 1% Decrease in Discount Rate 7% | Discount Rate 8% | 1% Increase in Discount Rate 9% |
|---|---|---|---|
| District's proportionate share of the net pension liability | $ 3,965,307 | $ 2,530,823 | $ 1,335,969 |

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

At August 31, 2016, the District reported a liability of $2,530,823 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 | $ | 2,530,823 |
| State's proportionate share of the net pension liability associated with the District | | 5,824,549 |
| Total | $ | 8,355,372 |

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

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.0071596%. which was an increase (decrease) of 0.0026999% 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*

a. The inflation assumption was decreased from 3.00% to 2.50%

b. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%.

c. In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.

d. The payroll growth assumption was lowered from 3.50% to 2.50%

*Mortality Assumptions*

e. 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.

f. 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.

g. 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*

h. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.

i. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.

j. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.

k. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.

l. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

*Actuarial Methods and Policies*

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

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

For the year ended August 31, 2016, the District recognized pension expense of $829,905 and revenue of $829,905 for support provided by the State.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Differences between expected and actual economic experience | $ 15,322 | $ 97,262 |
| Changes in actuarial assumptions | 64,398 | 90,289 |
| Difference between projected and actual investment earnings | 350,216 | -- |
| Changes in proportion and differences between the District's contributions and the proportionate share of contributions | 617,039 | 775 |
| Total as of August 31, 2015 measurement date | 1,046,974 | 188,326 |
| District contributions paid to TRS subsequent to the measurement date | 213,660 | |
| Total | $ 1,260,634 | $ 188,326 |

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

| Year Ended August 31 | | Pension Expense Amount |
|---|---|---|
| 2017 | $ | 153,551 |
| 2018 | $ | 153,551 |
| 2019 | $ | 153,553 |
| 2020 | $ | 244,577 |
| 2021 | $ | 87,805 |
| Thereafter | $ | 65,611 |

I. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

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

b. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas contribution rate was 1% for fiscal years 2016, 2015 and 2014**.** The active public school employee contributions rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2016, 2015 and 2014. For the years ended August 31, 2016, 2015, and 2014, the State's contributions to TRS-Care were $88,197, $84,874, and $92,956, respectively, the active member contributions were $57,328, $55,168, and $60,189, respectively, and the District's contributions were $48,509, $46,680, and $48,545, respectively, which equaled the required contributions each year.

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2016, 2015, and 2014, the subsidy payments received by TRS-Care on behalf of the District were $24,143, $34,830, and $35,443, respectively.

J. Employee Health Care Coverage

All premiums were paid to a self-funded pool.

During the year employees of the District were covered by a statewide health insurance plan, TRS Active Care. The District paid premiums of $341 per month per participating employee to the Plan**.** Employees, at their option, authorized payroll withholdings to pay premiums for dependents. The Teacher Retirement System (TRS) manages TRS Active Care. Administration of the Plan is provided by two companies. Aetna administers the medical plan while Caremark was assigned the prescription drug plan.

K. Commitments and Contingencies

1. Contingencies

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

2. Litigation

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

L. Shared Services Arrangements

Shared Services Arrangement - Membership
The District participates in a shared services arrangement ("SSA") for IDEA-B with the following school districts:

| Member Districts |
| --- |
| Hardin-Jefferson ISD |
| High Island |

The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, school name, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA.

# *Required Supplementary Information*

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

# HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

**EXHIBIT G-1**



*GENERAL FUND*
*BUDGETARY COMPARISON SCHEDULE*
*FOR THE YEAR ENDED AUGUST 31, 2016*

| Data Control Codes | | 1 Budgeted Amounts Original | 2 Budgeted Amounts Final | 3 Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|---|
| | **REVENUES:** | | | | |
| 5700 | *Local and Intermediate Sources* | $ 8,134,207 | $ 8,654,207 | $ 7,814,221 | $ (839,986) |
| 5800 | *State Program Revenues* | 6,750,842 | 6,900,842 | 6,878,607 | (22,235) |
| 5900 | *Federal Program Revenues* | 170,453 | 170,453 | 229,853 | 59,400 |
| 5020 | Total Revenues | 15,055,502 | 15,725,502 | 14,922,681 | (802,821) |
| | **EXPENDITURES:** | | | | |
| | Current: | | | | |
| | Instruction & Instructional Related Services: | | | | |
| 0011 | *Instruction* | 7,496,830 | 7,312,330 | 7,268,513 | 43,817 |
| 0012 | *Instructional Resources and Media Services* | 298,197 | 298,197 | 282,256 | 15,941 |
| 0013 | *Curriculum and Staff Development* | 49,600 | 46,600 | 25,730 | 20,870 |
| | Total Instruction & Instr. Related Services | 7,844,627 | 7,657,127 | 7,576,499 | 80,628 |
| | Instructional and School Leadership: | | | | |
| 0021 | *Instructional Leadership* | 178,501 | 178,501 | 154,544 | 23,957 |
| 0023 | *School Leadership* | 904,283 | 895,354 | 861,152 | 34,202 |
| | Total Instructional & School Leadership | 1,082,784 | 1,073,855 | 1,015,696 | 58,159 |
| | Support Services - Student (Pupil): | | | | |
| 0031 | *Guidance, Counseling and Evaluation Services* | 341,644 | 351,073 | 344,559 | 6,514 |
| 0033 | *Health Services* | 103,436 | 106,936 | 106,407 | 529 |
| 0034 | *Student (Pupil) Transportation* | 947,800 | 947,800 | 904,493 | 43,307 |
| 0036 | *Cocurricular/Extracurricular Activities* | 798,259 | 793,759 | 777,688 | 16,071 |
| | Total Support Services - Student (Pupil) | 2,191,139 | 2,199,568 | 2,133,147 | 66,421 |
| | Administrative Support Services: | | | | |
| 0041 | *General Administration* | 644,315 | 685,065 | 678,134 | 6,931 |
| | Total Administrative Support Services | 644,315 | 685,065 | 678,134 | 6,931 |
| | Support Services - Nonstudent Based: | | | | |
| 0051 | *Plant Maintenance and Operations* | 2,068,628 | 2,312,429 | 2,293,663 | 18,766 |
| 0052 | *Security and Monitoring Services* | 23,200 | 23,200 | 10,729 | 12,471 |
| 0053 | *Data Processing Services* | 126,588 | 109,588 | 84,087 | 25,501 |
| | Total Support Services - Nonstudent Based | 2,218,416 | 2,445,217 | 2,388,479 | 56,738 |
| | Debt Service: | | | | |
| 0071 | *Principal on Long-Term Debt* | 182,127 | 182,127 | 194,503 | (12,376) |
| 0072 | *Interest on Long-Term Debt* | 171,901 | 171,901 | 107,103 | 64,798 |
| 0073 | *Bond Issuance Costs and Fees* | -- | -- | 2,014 | (2,014) |
| | Total Debt Service | 354,028 | 354,028 | 303,620 | 50,408 |
| | Capital Outlay: | | | | |
| 0081 | *Capital Outlay* | 354,000 | 1,044,000 | 394,326 | 649,674 |
| | Total Capital Outlay | 354,000 | 1,044,000 | 394,326 | 649,674 |
| | Intergovernmental Charges: | | | | |
| 0093 | *Payments to Fiscal Agent/Member Dist.-SSA* | 178,495 | 190,495 | 189,655 | 840 |
| 0095 | *Payments to Juvenile Justice Alternative* | | | | |
| 0095 | *Education Programs* | 18,000 | 18,000 | 18,000 | -- |
| 0099 | *Other Intergovernmental Charges* | 90,000 | 90,000 | 77,470 | 12,530 |
| | Total Intergovernmental Charges | 286,495 | 298,495 | 285,125 | 13,370 |

# HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

*GENERAL FUND*
*BUDGETARY COMPARISON SCHEDULE*
*FOR THE YEAR ENDED AUGUST 31, 2016*

| Data Control Codes | | 1 Budgeted Amounts Original | 2 Budgeted Amounts Final | 3 Actual | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|---|
| 6030 | Total Expenditures | 14,975,804 | 15,757,355 | 14,775,026 | 982,329 |
| 1100 | Excess (Deficiency) of Revenues Over (Under) | | | | |
| 1100 | Expenditures | 79,698 | (31,853) | 147,655 | 179,508 |
| | Other Financing Sources (Uses): | | | | |
| 7915 | *Transfers In* | -- | 650,000 | -- | (650,000) |
| 8911 | *Transfers Out* | (62,867) | (762,867) | (112,001) | 650,866 |
| 7080 | Total Other Financing Sources and (Uses) | (62,867) | (112,867) | (112,001) | 866 |
| 1200 | Net Change in Fund Balance | 16,831 | (144,720) | 35,654 | 180,374 |
| 0100 | Fund Balance - Beginning | 3,753,906 | 3,753,906 | 3,753,906 | -- |
| 3000 | Fund Balance - Ending | $ 3,770,737 | $ 3,609,186 | $ 3,789,560 | $ 180,374 |

# HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

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

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| District's proportion of the net pension liability (asset) | 0.0071596% | 0.0044597% | -- | -- | -- |
| District's proportionate share of the net pension liability (asset) | $ 2,530,823 | $ 1,191,247 | $ -- | $ -- | $ -- |
| State's proportionate share of the net pension liability (asset) associated with the District | 5,824,549 | 5,603,903 | -- | -- | -- |
| Total | $ 8,355,372 | $ 6,795,150 | $ -- | $ -- | $ -- |
| District's covered-employee payroll | $ 8,487,350 | $ 9,259,871 | $ -- | $ -- | $ -- |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 29.82% | 12.86% | -- | -- | -- |
| Plan fiduciary net position as a percentage of the total pension liability | 78.43% | 83.25% | -- | -- | -- |

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

**EXHIBIT G-2**

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | 2011 | 2010 | 2009 | 2008 | 2007 |
| | -- | -- | -- | -- | -- |
| $ | -- | $ -- | $ -- | $ -- | $ -- |
| | -- | -- | -- | -- | -- |
| $ | -- | $ -- | $ -- | $ -- | $ -- |
| $ | -- | $ -- | $ -- | $ -- | $ -- |
| | -- | -- | -- | -- | -- |
| | -- | -- | -- | -- | -- |

# HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF DISTRICT CONTRIBUTIONS*
*TEACHER RETIREMENT SYSTEM OF TEXAS*
*LAST TEN FISCAL YEARS **

| | Fiscal Year | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| Contractually required contribution | $ 213,660 | $ 212,572 | $ -- | $ -- | $ -- |
| Contributions in relation to the contractually required contribution | (213,660) | (212,572) | -- | -- | -- |
| Contribution deficiency (excess) | $ -- | $ -- | $ -- | $ -- | $ -- |
| District's covered-employee payroll | $ 8,819,718 | $ 8,487,350 | $ -- | $ -- | $ -- |
| Contributions as a percentage of covered-employee payroll | 2.42% | 2.50% | -- | -- | -- |

Note GASB 68, Paragraph 81.2.b requires that the data in this schedule be presented as of the District's current fiscal year as opposed to the time period covered by the measurement date of September 1, 2014 - August 31, 2015.

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

**EXHIBIT G-3**

| Fiscal Year | | | | |
|---|---|---|---|---|
| 2011 | 2010 | 2009 | 2008 | 2007 |
| $ -- | $ -- | $ -- | $ -- | $ -- |
| -- | -- | -- | -- | -- |
| $ -- | $ -- | $ -- | $ -- | $ -- |
| $ -- | $ -- | $ -- | $ -- | $ -- |
| -- | -- | -- | -- | -- |

Budget

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data.:

a. Prior to August 21 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.

b. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.

c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can be amended at function and fund level only 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. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

Each amendment 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.

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 cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

Defined Benefit Pension Plan

*Changes of benefit terms*

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

*Changes of assumptions*

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

# *Other Supplementary Information*

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

# HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF DELINQUENT TAXES RECEIVABLE*
*FOR THE YEAR ENDED AUGUST 31, 2016*

| Year Ended August 31 | 1 Tax Rates Maintenance | 2 Tax Rates Debt Service | 3 Assessed/Appraised Value For School Tax Purposes |
|---|---|---|---|
| 2007 and Prior Years | $ Various | $ Various | $ Various |
| 2008 | 1.17 | .168 | 574,742,526 |
| 2009 | 1.17 | .155 | 711,151,880 |
| 2010 | 1.17 | .166 | 650,778,967 |
| 2011 | 1.17 | .176 | 625,942,040 |
| 2012 | 1.17 | .186 | 672,505,678 |
| 2013 | 1.17 | .186 | 708,890,855 |
| 2014 | 1.17 | .186 | 688,941,150 |
| 2015 | 1.17 | .186 | 696,511,646 |
| 2016 (School Year Under Audit) | 1.17 | .2618 | 664,229,711 |
| 1000 Totals | | | |
| 9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code | | | |

| 10 Beginning Balance 9/1/15 | 20 Current Year's Total Levy | 31 Maintenance Collections | 32 Debt Service Collections | 40 Entire Year's Adjustments | 50 Ending Balance 8/31/16 |
|---|---|---|---|---|---|
| $ 173,850 | $ -- | $ 2,159 | $ 294 | $ 57,170 | $ 228,566 |
| 68,266 | -- | 1,490 | 214 | (101) | 66,461 |
| 40,650 | -- | 2,603 | 345 | (334) | 37,368 |
| 37,463 | -- | 1,983 | 281 | (545) | 34,653 |
| 54,913 | -- | 5,061 | 761 | (626) | 48,465 |
| 90,573 | -- | 8,303 | 1,320 | (361) | 80,589 |
| 107,324 | -- | 12,952 | 2,059 | (496) | 91,817 |
| 127,442 | -- | 18,590 | 2,956 | (701) | 105,196 |
| 195,905 | -- | 68,838 | 10,943 | (12,327) | 103,796 |
| -- | 9,510,441 | 7,417,100 | 1,659,655 | (193,828) | 239,858 |
| $ 896,386 | $ 9,510,441 | $ 7,539,081 | $ 1,678,829 | $ (152,148) | $ 1,036,769 |
| $ -- | $ -- | $ -- | $ -- | $ -- | $ -- |

# HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

**EXHIBIT J-2**

*NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM*
*BUDGETARY COMPARISON SCHEDULE*
*FOR THE YEAR ENDED AUGUST 31, 2016*

| Data Control Codes | | 1 Budget | 2 Actual | 3 Variance Positive (Negative) |
|---|---|---|---|---|
| | **REVENUES:** | | | |
| 5700 | *Local and Intermediate Sources* | $ 484,613 | $ 450,004 | $ (34,609) |
| 5800 | *State Program Revenues* | 4,000 | 3,497 | (503) |
| 5900 | *Federal Program Revenues* | 321,688 | 353,701 | 32,013 |
| 5020 | Total Revenues | 810,301 | 807,202 | (3,099) |
| | **EXPENDITURES:** | | | |
| | Current: | | | |
| | Support Services - Student (Pupil): | | | |
| 0035 | *Food Services* | 923,168 | 919,180 | 3,988 |
| | Total Support Services - Student (Pupil) | 923,168 | 919,180 | 3,988 |
| 6030 | Total Expenditures | 923,168 | 919,180 | 3,988 |
| 1100 | Excess (Deficiency) of Revenues Over (Under) | | | |
| 1100 | Expenditures | (112,867) | (111,978) | 889 |
| | Other Financing Sources (Uses): | | | |
| 7915 | *Transfers In* | 112,867 | 112,001 | (866) |
| 7080 | Total Other Financing Sources and (Uses) | 112,867 | 112,001 | (866) |
| 1200 | Net Change in Fund Balance | -- | 23 | 23 |
| 0100 | Fund Balance - Beginning | -- | -- | -- |
| 3000 | Fund Balance - Ending | $ -- | $ 23 | $ 23 |

# HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

**EXHIBIT J-3**

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

| Data Control Codes | | 1 Budget | 2 Actual | 3 Variance Positive (Negative) |
|---|---|---|---|---|
| | **REVENUES:** | | | |
| 5700 | *Local and Intermediate Sources* | $ 1,703,154 | $ 1,702,166 | $ (988) |
| 5800 | *State Program Revenues* | -- | 35,116 | 35,116 |
| 5020 | Total Revenues | 1,703,154 | 1,737,282 | 34,128 |
| | **EXPENDITURES:** | | | |
| | Debt Service: | | | |
| 0071 | *Principal on Long-Term Debt* | 850,000 | 850,000 | -- |
| 0072 | *Interest on Long-Term Debt* | 837,666 | 837,666 | -- |
| 0073 | *Bond Issuance Costs and Fees* | 2,500 | 1,569 | 931 |
| | Total Debt Service | 1,690,166 | 1,689,235 | 931 |
| 6030 | Total Expenditures | 1,690,166 | 1,689,235 | 931 |
| 1100 | Excess (Deficiency) of Revenues Over (Under) | | | |
| 1100 | Expenditures | 12,988 | 48,047 | 35,059 |
| 1200 | Net Change in Fund Balance | 12,988 | 48,047 | 35,059 |
| 0100 | Fund Balance - Beginning | 126,653 | 126,653 | -- |
| 3000 | Fund Balance - Ending | $ 139,641 | $ 174,700 | $ 35,059 |

**WEST, DAVIS & COMPANY, LLP**
11824 Jollyville Road, Suite 100
Austin, Texas 78759

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

Board of Trustees
Hamshire-Fannett Independent School District
Hamshire, Texas

Members of the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hamshire-Fannett Independent School District, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise Hamshire-Fannett Independent School District's basic financial statements, and have issued our report thereon dated January 20, 2017.

**Internal Control Over Financial Reporting**

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

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

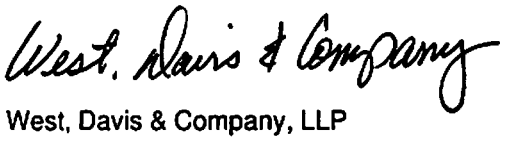
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

**Compliance and Other Matters**

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

**Purpose of this Report**

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



West, Davis & Company, LLP
Austin, Texas
January 20, 2017

**WEST, DAVIS & COMPANY, LLP**
11824 Jollyville Road, Suite 100
Austin, Texas 78759

Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Trustees
Hamshire-Fannett Independent School District
Hamshire, Texas

Members of the Board of Trustees:

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

We have audited the Hamshire-Fannett Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on Hamshire-Fannett Independent School District's major federal program for the year ended August 31, 2016. Hamshire-Fannett Independent School District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

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

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of Hamshire-Fannett Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hamshire-Fannett Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

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

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

**Report on Internal Control Over Compliance**

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

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

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

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

West, Davis & Company, LLP
Austin, Texas
January 20, 2017

## HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*
*FOR THE YEAR ENDED AUGUST 31, 2016*

A. Summary of Auditor's Results

1. Financial Statements

| | | | |
|---|---|---|---|
| Type of auditor's report issued: | Unmodified | | |
| Internal control over financial reporting: | | | |
| One or more material weaknesses identified? | ____ Yes | X No | |
| One or more significant deficiencies identified that are not considered to be material weaknesses? | ____ Yes | X No | None Reported |
| Noncompliance material to financial statements noted? | ____ Yes | X No | |

2. Federal Awards

| | | | |
|---|---|---|---|
| Internal control over major programs: | | | |
| One or more material weaknesses identified? | ____ Yes | X No | |
| One or more significant deficiencies identified that are not considered to be material weaknesses? | ____ Yes | X No | None Reported |
| Type of auditor's report issued on compliance for major programs: | Unmodified | | |
| Any audit findings disclosed that are required to be reported in accordance with Title 2 U.S. Code of Federal Regulations (CFR) Part 200? | ____ Yes | X No | |

Identification of major programs:

| CFDA Number(s) | Name of Federal Program or Cluster |
|---|---|
| | **CHILD NUTRITION CLUSTER:** |
| 10.553 | School Breakfast Program |
| 10.555 | National School Lunch Program (Non-Cash) |
| 10.555 | National School Lunch Program |

| | | | |
|---|---|---|---|
| Dollar threshold used to distinguish between type A and type B programs: | $750,000 | | |
| Auditee qualified as low-risk auditee? | X Yes | ____ No | |

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

# HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

**EXHIBIT K-1**

*SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*
*FOR THE YEAR ENDED AUGUST 31, 2016*

| (1) | (2) | (2A) | | (3) |
|---|---|---|---|---|
| Federal Grantor/ Pass-Through Grantor/ Program or Cluster Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Passed Through to Subrecipients | Federal Expenditures |
| **CHILD NUTRITION CLUSTER:** | | | | |
| U. S. Department of Agriculture | | | | |
| Passed Through State Department of Education: | | | | |
| School Breakfast Program | 10.553 | 71401601 | $ | $ 71,788 |
| National School Lunch Program (Non-cash) | 10.555 | 123-914 | -- | 47,302 |
| National School Lunch Program | 10.555 | 71301601 | -- | 234,611 |
| Total CFDA Number 10.555 | | | -- | 281,913 |
| Total Passed Through State Department of Education | | | -- | 353,701 |
| Total U. S. Department of Agriculture | | | -- | 353,701 |
| Total Child Nutrition Cluster | | | -- | 353,701 |
| **SPECIAL EDUCATION (IDEA) CLUSTER:** | | | | |
| U. S. Department of Education | | | | |
| Passed Through State Department of Education: | | | | |
| *IDEA-B Formula* | 84.027A | 166600011239146600 | -- | 224,970 |
| *IDEA-B Formula* | 84.027A | 176600011239146600 | -- | 15,032 |
| Total CFDA Number 84.027A | | | -- | 240,002 |
| *IDEA-B Preschool* | 84.173A | 166610011239146610 | -- | 17,994 |
| *IDEA-B Preschool* | 84.173A | 176610011239146610 | -- | 985 |
| Total CFDA Number 84.173A | | | -- | 18,979 |
| Total Passed Through State Department of Education | | | -- | 258,981 |
| Total U. S. Department of Education | | | -- | 258,981 |
| Total Special Education (IDEA) Cluster | | | -- | 258,981 |
| **OTHER PROGRAMS:** | | | | |
| U. S. Department of Education | | | | |
| Passed Through State Department of Education: | | | | |
| *ESEA Title I Part A - Improving Basic Programs* | 84.010A | 16610101123914 | -- | 132,993 |
| *ESEA Title I Part A - Improving Basic Programs* | 84.010A | 17610101123914 | -- | 7,181 |
| Total CFDA Number 84.010A | | | -- | 140,174 |
| *ESEA Title II Part A - Teacher & Principal Training & Recruiting* | 84.367A | 16694501123914 | -- | 43,154 |
| *ESEA Title II Part A - Teacher & Principal Training & Recruiting* | 84.367A | 17694501123914 | -- | 2,988 |
| Total CFDA Number 84.367A | | | -- | 46,142 |
| Total Passed Through State Department of Education | | | -- | 445,297 |
| Total U. S. Department of Education | | | -- | 445,297 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | $ -- | $ 798,996 |

The accompanying notes are an integral part of this schedule.

# HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

*NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*
*FOR THE YEAR ENDED AUGUST 31, 2016*

Basis of Presentation

A. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal award grant activity of the District under programs of the federal government for the year. The information on this Schedule is prepared in accordance with the requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

B. Summary of Significant Accounting Policies

Expenditures reported on the Schedule are reported on the cash basis of accounting. Such expenditures are recognized following Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures may or may not be allowable or may be limited as to reimbursement. The District has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

C. Subrecipients

The District has no subrecipients.

D. Child Nutrition Cluster

The District commingles cash receipts from the U.S. Department of Agriculture with similar State grants. When reporting expenditures on this Schedule, the District assumes it expends federal monies first.

E. Food Donation Program

The District reports commodities consumed on the Schedule at the fair value. The District allocated donated food commodities to the respective program(s) [National School Lunch Program (Non-Cash)] that benefitted from the use of those donated food commodoties.

F. Matching Requirements

Certain Federal programs require the District to contribute non-Federal funds (matching funds) to support the Federally-funded programs. The District has met its matching requirements. The Schedule does not include the expenditure of non-Federal matching funds.

# HAMSHIRE-FANNETT INDEPENDENT SCHOOL DISTRICT

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

| Data Control Codes | | Responses |
|---|---|---|
| SF2 | Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end? | No |
| SF4 | Was there an unmodified opinion in the Annual Financial Report? | Yes |
| SF5 | Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds? | 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 governmental agencies? | Yes |
| SF8 | Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship? | Yes |
| SF10 | What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end? | $ -- |
| SF11 | Net Pension Assets (object 1920) at fiscal year-end. | $ -- |
| SF12 | Net Pension Liabilities (object 2540) at fiscal year-end. | $ 2,530,823 |
| SF13 | Pension Expense (object 6147) at fiscal year-end. | $ 211,289 |