

HILLSBORO
INDEPENDENT SCHOOL DISTRICT
HILL COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2016

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

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CERTIFICATE OF BOARD

**Hillsboro Independent
School District**

Name of School District

Hill

County

109904

County – District Number

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

Signature of Board President

Signature of Board Secretary

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

James E. Rodgers and Company, P.C.

Certified Public Accountants

20 Southwest Third Street • PO Box 669 • Hamlin, Texas 79520 • Tel: 325-576-2356 • Fax: 325-576-3525

E-mail: rodgerscpa@att.net

Member of Texas Society of CPA's and American Institute of CPA's

Richard E. Rodgers CPA • Gerald L. Rodgers CPA

December 12, 2016

Unmodified Report on Financial Statements Issued in Accordance with Government Auditing Standards and a Single Audit Accompanied by Required Supplementary Information, Supplementary Information, and Other Information

Independent Auditor's Report

**To the Board of Trustees
Hillsboro Independent School District
Hillsboro, Texas 76645**

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 Hillsboro 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.

Auditor's Responsibility

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

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

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

James E. Rodgers and Company, P.C.

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 Hillsboro Independent School District, as of August 31, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in notes to the financial statements, in the previous fiscal year (2015), the District adopted new accounting guidance prescribed by GASB #68 for its pension plan a multiple-employer, cost-sharing, defined benefit pension plan that has a special funding situation. Because GASB #68 implements new measurement criteria and reporting provisions, significant information is included in the Government Wide Statements. Exhibit A-1 discloses the District's Net Pension Liability and some deferred resource outflows and deferred resource inflows related to the District's pension plan. Exhibit B-1 discloses the adjustment to the District's pension expense. Our opinion is not modified with respect to the 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, and GASB 68 pension liability and contributions 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 Hillsboro Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements, and the Texas Education Agency required information in conformity with laws and regulations of the State of Texas in Exhibits J-1 through J-3, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the Texas Education Agency required information in conformity with laws and regulations of the state of Texas in Exhibits J-1 through J-3, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements

James E. Rodgers and Company, P.C.

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 this section.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2016, on our consideration of the Hillsboro 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 Hillsboro Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,



James E. Rodgers and Company, P.C.

HILLSBORO INDEPENDENT SCHOOL DISTRICT

121 East Franklin Street
Hillsboro, Texas 76645



Phone: 254-582-8585 * Fax: 254-582-4165

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the administration of **Hillsboro Independent School District**, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2016. Please read it in conjunction with the independent auditor's report and the District's Basic Financial Statements.

FINANCIAL HIGHLIGHTS

Highlights of Current Fiscal Year Finances

District's Total Net Position at the end of the Year	\$	4,080,894
Total District Revenues for the Current Fiscal Year	\$	22,872,865
Total District Expenses for the Current Fiscal Year	\$	21,623,683
Fund Balance in the General Fund at the End of Year	\$	2,254,584

Changes in the District's Finances from the Previous Fiscal Year

	Increase (Decrease)	
	\$	%
<u>Change in Net Position:</u>		
Change in the District's Total Net Position	\$ 1,249,182	44.11%
<u>Revenue Changes:</u>		
Change in the District's Total Revenues	\$ 260,875	1.15%
Change in the District's Property Tax Revenues	\$ 266,806	3.39%
Change in the District's State Aid Formula Grants	\$ (68,588)	-0.65%
Change in Operating Grants and Contributions	\$ (144,088)	-4.66%
<u>Expense Changes:</u>		
Change in the District's Total Expenses	\$ 166,043	0.77%
<u>Other Information:</u>		
Change in the District's General Fund Balance	\$ 791,146	54.06%
Excess (Deficit) of Actual Revenue over Budgeted Revenue	\$ 683,056	3.89%

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. These statements 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 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 provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

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

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins with the Statement of Net Position (Exhibit A-1). Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

These two statements report the District's net position and changes in net position. The District's net position (the difference between assets, deferred outflows, liabilities, and deferred inflows) provide one measure of the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider non-financial 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 combine the District into one kind of activity (all governmental activities).

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements begin with the Governmental Funds Balance Sheet (Exhibit C-1) 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's two kinds of funds (governmental and proprietary) use different accounting approaches.

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

Proprietary funds—The District reports the activities for which it charges users (whether outside customers or other units of the District) in proprietary funds using the same accounting methods employed in the Statement of Net Position and the Statement of Activities. In fact, the District's enterprise funds (one category of proprietary funds which the District does not have at present) are the business-type activities reported in the government-wide statements but containing more detail and additional information, such as cash flows. The internal service funds (the other category of proprietary funds in Exhibits D-1, D-2, and D-3) report activities that provide supplies and services for the District's other programs and activities—such as the District's self-insurance and day care programs.

The District as Trustee

Reporting the District's Fiduciary Responsibilities

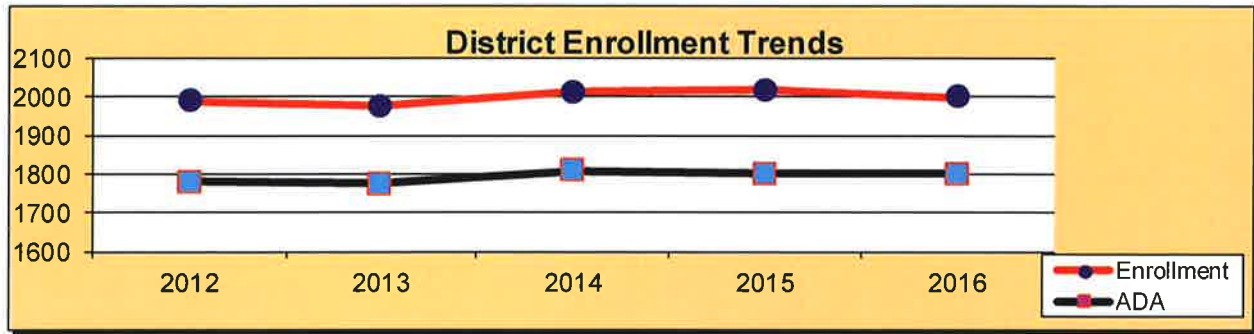
The District is the trustee, or fiduciary, for money raised by student activities and alumni scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net position (Exhibit E-1). We exclude these resources from the District's other financial statements 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

State funding in Texas is based upon the District’s average daily attendance, thus the District’s revenue is highly dependent on enrollment trends. The District receives additional weighted funding for students enrolled in career and technology coursework, gifted and talented, special, bilingual, and compensatory education programs. The demographics of the District and the types of coursework students pursue are continuing to evolve in the District. The following chart details the enrollment trends of the District.

ENROLLMENT TRENDS

Year	Enrollment	ADA
2012	1990	1781.0
2013	1976	1774.0
2014	2013	1808.2
2015	2018	1801.5
2016	1999	1801.5



The following table indicates the net position of the District at the end of the previous and current years.

**Table I
HILLSBORO INDEPENDENT SCHOOL DISTRICT
Net Position**

	Governmental Activities		Business-Type Activities		Totals	
	2015	2016	2015	2016	2015	2016
Current and other assets	\$ 3,984,299	\$ 5,146,364	\$ -	\$ -	\$ 3,984,299	\$ 5,146,364
Capital assets	21,036,914	20,381,545	-	-	21,036,914	20,381,545
Deferred Outflows	618,880	2,057,894			618,880	2,057,894
Total assets & deferred outflows	\$ 25,640,093	\$ 27,585,803	\$ -	\$ -	\$ 25,640,093	\$ 27,585,803
Long-term liabilities	\$ 1,105,700	\$ 22,046,761	\$ -	\$ -	\$ 1,105,700	\$ 22,046,761
Other liabilities	21,000,475	1,099,916	-	-	21,000,475	1,099,916
Deferred Inflows	702,206	358,232	-	-	702,206	358,232
Total liabilities & deferred inflows	\$ 1,807,906	\$ 23,504,909	\$ -	\$ -	\$ 1,807,906	\$ 22,404,993
Net Position:						
Net Investment in capital assets	\$ 2,376,286	\$ 2,797,885	\$ -	\$ -	\$ 2,376,286	\$ 2,797,885
Restricted	914,861	1,221,373	-	-	914,861	1,221,373
Unrestricted	(459,435)	61,636	-	-	(459,435)	61,636
Total Net Position	\$ 2,831,712	\$ 4,080,894	\$ -	\$ -	\$ 2,831,712	\$ 4,080,894

The following table indicates the changes in net position of the District during the previous and current years.

Table II						
HILLSBORO INDEPENDENT SCHOOL DISTRICT						
Changes in Net Position						
	Governmental Activities		Business-Type Activities		Totals	
	2015	2016	2015	2016	2015	2016
Program Revenues:						
Charges for Services	\$ 554,984	\$ 686,207	\$ -	\$ -	\$ 554,984	\$ 686,207
Operating grants & contributions	3,091,918	2,947,830	-	-	3,091,918	2,947,830
General Revenues:						
Maintenance & operations taxes	6,402,942	6,617,838	-	-	6,402,942	6,617,838
Debt service taxes	1,469,289	1,521,199	-	-	1,469,289	1,521,199
State aid - formula grants	10,619,244	10,550,656	-	-	10,619,244	10,550,656
Grants and contributions not restricted to specific functions	-	-	-	-	-	-
Investment earnings	11,989	35,333	-	-	11,989	35,333
Miscellaneous	461,624	513,802	-	-	461,624	513,802
Total Revenues	\$ 22,611,990	\$ 22,872,865	\$ -	\$ -	\$ 22,611,990	\$ 22,872,865
Expenses						
Instruction, curriculum & media services	\$ 12,025,893	\$ 12,247,156	\$ -	\$ -	\$ 12,025,893	\$ 12,247,156
Instructional & school leadership	1,631,372	1,695,121	-	-	1,631,372	1,695,121
Student support services	999,324	904,322	-	-	999,324	904,322
Food Services	989,781	948,463	-	-	989,781	948,463
Extracurricular activities	1,222,953	1,255,629	-	-	1,222,953	1,255,629
General administration & data processing	1,108,596	1,124,742	-	-	1,108,596	1,124,742
Plant maintenance & security	2,335,914	2,354,894	-	-	2,335,914	2,354,894
Community Services	232,012	260,523	-	-	232,012	260,523
Interest & fees on long term debt	523,774	545,446	-	-	523,774	545,446
Other business-type activities & intergovernmental	388,021	287,387	-	-	388,021	287,387
Total Expenses	\$ 21,457,640	\$ 21,623,683	\$ -	\$ -	\$ 21,457,640	\$ 21,623,683
Increase in net position before transfers and special items	\$ 1,154,350	\$ 1,249,182	\$ -	\$ -	\$ 1,154,350	\$ 1,249,182
Transfers	4,627	-	-	-	4,627	-
Extraordinary & special items	-	-	-	-	-	-
Prior period adjustment - GASB 68 Pension Reporting	(2,562,129)	-	-	-	(2,562,129)	-
Net position at 9/1	4,234,864	2,831,712	-	-	4,234,864	2,831,712
Total Net Position	\$ 2,831,712	\$ 4,080,894	\$ -	\$ -	\$ 2,831,712	\$ 4,080,894

An analysis of the change in the net position for governmental activities is as follows:

Excess of Revenues Over Expenditures for Governmental Funds	\$ 1,083,056
Net Gain (Loss) of Internal Service Funds	43,547
Current Year Purchases of Capital Assets	270,249
Current Year Debt Principal Payments	1,386,636
Depreciation	(925,619)
Other Modified to Full Accrual Revenue Adjustments	(294,880)
Net Adjustment to Pension Expense per GASB 68	(313,807)
Change in Net Position of Governmental Activities	<u>\$ 1,249,182</u>

THE DISTRICT'S FUNDS

A financial summary of the District's funds for the current year is as follows:

Governmental Fund Financial Statements					
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total
Revenues	\$ 18,240,426	\$ 2,557,644	\$ 1,554,020	\$ 325,149	\$ 22,677,239
Expenditures	(17,390,942)	(2,548,474)	(1,596,429)	(123,784)	(21,659,629)
Other Financing Sources	118,764	-	-	123,784	242,548
Other Financing Uses	(177,102)	-	-	-	(177,102)
Net Change in Fund Balance	\$ 791,146	\$ 9,170	\$ (42,409)	\$ 325,149	\$ 1,083,056
Beginning Fund Balance	1,463,438	372,628	494,608	-	2,330,674
Ending Fund Balance					
All Governmental Funds	\$ 2,254,584	\$ 381,798	\$ 452,199	\$ 325,149	\$ 3,413,730

The District modified its budget several times during the year resulting in a net increase in budgeted expenditures between the original and final budget in the District's General Fund. Significant amendments were made during the current year as detailed in Exhibit G-1.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the current year, the District had invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This year's major additions and the net change in total capital assets are as follows:

High School Locker Room Improvements	\$	12,300
Football Field Visitor Sidewalk		8,900
Ag Building Parking Lot, Cattle Pens, and Improvements		123,783
Scissor Lift		6,500
Cisco Phone System		118,764
TOTAL	\$	270,249
Total Additions	\$	270,249
Total Deletions		-
Net Change	\$	270,249

The District's next fiscal year general fund capital budget indicates no significant capital outlay.

Debt

The District's long term debt at the end of the current year is as follows:

	Interest Rate on Issue	Amounts Original Issue	Interest Current Year	Outstanding 8/31/2016	Next Year's Total Principal and Interest Requirement
2001 CAB Bonds & Accreted Interest	3.75%-5.50%	\$ 114,164	\$ -	\$ 4,187,587	\$ -
2012 Maintenance Tax Notes	3.68%-3.68%	\$ 800,000	21,528	510,000	78,000
2014 Tax Refunding Bonds	2.00%-3.00%	\$ 7,070,000	182,850	5,950,000	525,000
2015 Tax Refunding Bonds	3.00%-4.50%	\$ 7,100,000	142,828	6,340,000	605,000
2015 Apple For Ipads Capital Lease	3.63%	\$ 83,680	951	54,523	26,648
2015 Phone System Capital Lease	4.44%	\$ 118,764	-	105,332	20,190
Totals			\$ 348,157	\$ 17,147,442	\$ 1,254,838

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

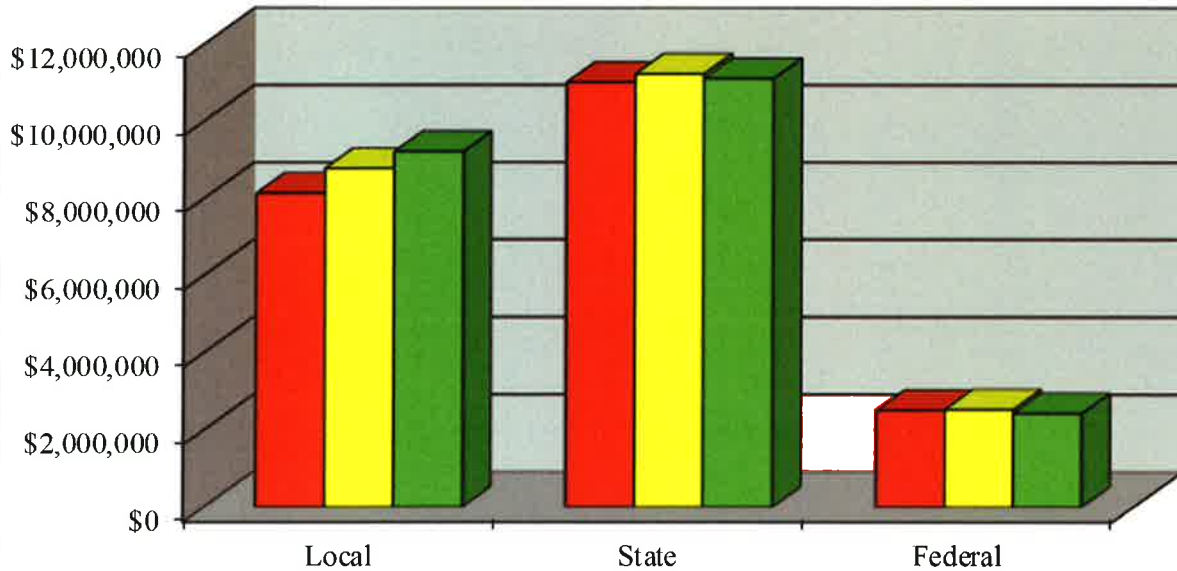
The District's elected and appointed officials considered many factors when setting the next fiscal year budget and tax rates. Those factors included a stable local economy and a slightly increasing average student population as indicated by the enrollment information displayed on page 9. These indicators were taken into account when adopting the General Fund budget for next year. A summary of the next fiscal year budget is as follows:

Fiscal Year 2016 - 2017 Adopted Budget				
	General Fund	Child Nutrition Fund	Debt Service Fund	TOTALS
Revenues	\$ 17,174,650	\$ 1,009,733	\$ 1,572,300	\$ 19,756,683
Expenditures	(17,344,650)	(1,009,733)	(1,572,300)	(19,926,683)
Other Financing Sources	200,000	-	-	200,000
Other Financing Uses	(30,000)	-	-	(30,000)
Net Change in Fund Balance	\$ -	\$ -	\$ -	\$ -
Beginning of Year Fund Balance	2,254,584	317,046	452,199	3,023,829
Projected End of Year Fund Balance	\$ 2,254,584	\$ 317,046	\$ 452,199	\$ 3,023,829

The following graph indicates the District's revenues by source for the last three years.

HILLSBORO INDEPENDENT SCHOOL DISTRICT			
REVENUES BY SOURCE			
	FY 2013-2014	FY 2014-2015	FY 2015-2016
ADA	1808.24	1801.536	1801.547
Local	\$8,111,768	\$8,749,819	\$9,186,081
State	10,976,260	11,188,892	11,073,666
Federal	2,497,792	2,515,239	2,417,492
Total	\$21,585,820	\$22,453,950	\$22,677,239

Revenues by Source



■ FY 2013-2014

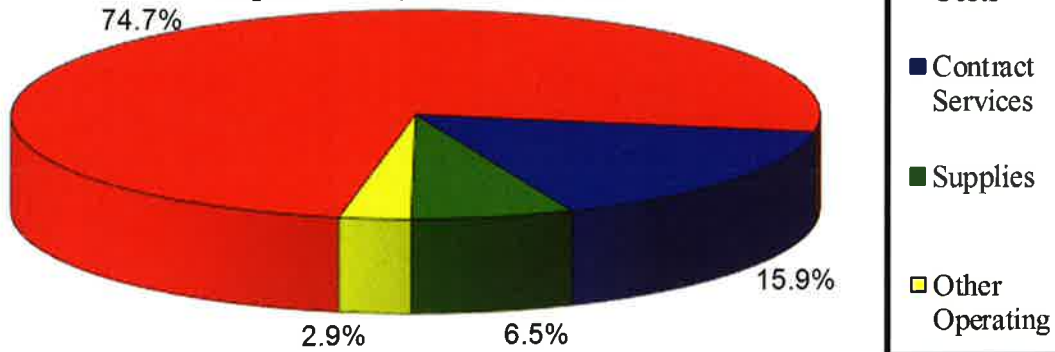
■ FY 2014-2015

■ FY 2015-2016

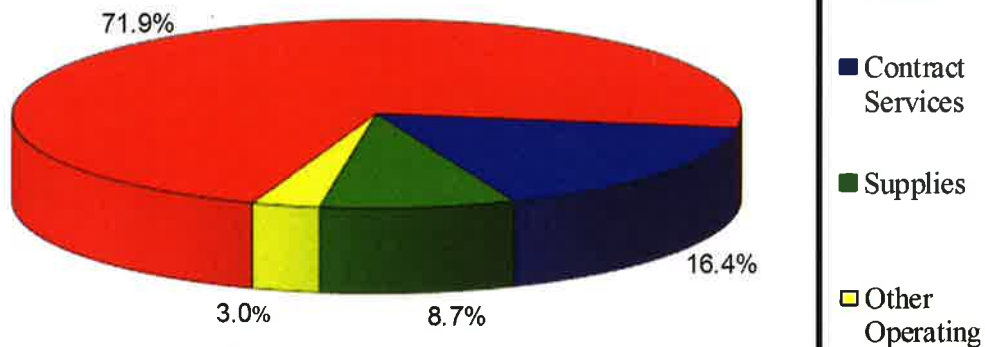
The following graph indicates the District's operating expenditures by object for the last three years.

HILLSBORO INDEPENDENT SCHOOL DISTRICT			
EXPENDITURES BY OBJECT CODE EXCLUDING CAPITAL OUTLAY & DEBT SERVICE			
	FY 2013-2014	FY 2014-2015	FY 2015-2016
Total Staff	267.43	273.87	277.39
Payroll Costs	\$13,757,808	\$14,409,260	\$14,684,104
Contract Services	3,082,266	3,274,374	3,123,205
Supplies	1,765,632	1,742,119	1,280,627
Other Operating	646,696	605,507	565,351
Total Expenditures	\$19,252,402	\$20,031,260	\$19,653,287

Fiscal Year 2015-2016 Expenditures by Object Excluding Capital Outlay & Debt Service



Fiscal Year 2014-2015 Expenditures by Object Excluding Capital Outlay & Debt Service



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 Hillsboro Independent School District, 121 East Franklin Street, Hillsboro, Texas 76645; (254) 582-8585.

BASIC FINANCIAL STATEMENTS

HILLSBORO INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2016

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 3,952,574
1120 Current Investments	12,144
1220 Property Taxes Receivable (Delinquent)	586,087
1230 Allowance for Uncollectible Taxes	(52,748)
1240 Due from Other Governments	644,971
1290 Other Receivables, net	3,336
Capital Assets:	
1510 Land	1,360,560
1520 Buildings, Net	18,156,200
1530 Furniture and Equipment, Net	864,785
1000 Total Assets	25,527,909
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	63,208
1705 Deferred Outflow Related to TRS	1,994,686
1700 Total Deferred Outflows of Resources	2,057,894
LIABILITIES	
2110 Accounts Payable	221,659
2160 Accrued Wages Payable	546,832
2180 Due to Other Governments	294,546
2200 Accrued Expenses	36,879
Noncurrent Liabilities	
2501 Due Within One Year	1,268,880
2502 Due in More Than One Year	16,392,030
2540 Net Pension Liability (District's Share)	4,385,851
2000 Total Liabilities	23,146,677
DEFERRED INFLOWS OF RESOURCES	
2602 Deferred Resource Inflow Grants	31,825
2605 Deferred Inflow Related to TRS	326,407
2600 Total Deferred Inflows of Resources	358,232
NET POSITION	
3200 Net Investment in Capital Assets	2,797,885
3820 Restricted for Federal and State Programs	317,046
3850 Restricted for Debt Service	438,157
3860 Restricted for Capital Projects	325,149
3870 Restricted for Campus Activities	141,021
3900 Unrestricted	61,636
3000 Total Net Position	\$ 4,080,894

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

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

EXHIBIT B-1

Net (Expense)
Revenue and
Changes in Net
Position

Data Control Codes	1	Program Revenues		6
Codes	Expenses	3	4	Primary Gov. Governmental Activities
Codes	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 11,719,012	\$ 297,473	\$ 1,749,322	\$ (9,672,217)
12 Instructional Resources and Media Services	219,897	-	6,458	(213,439)
13 Curriculum and Staff Development	308,247	-	112,513	(195,734)
21 Instructional Leadership	288,185	-	11,763	(276,422)
23 School Leadership	1,406,936	-	68,760	(1,338,176)
31 Guidance, Counseling and Evaluation Services	362,746	-	21,238	(341,508)
33 Health Services	155,432	-	9,754	(145,678)
34 Student (Pupil) Transportation	386,144	-	13,923	(372,221)
35 Food Services	948,463	182,159	820,296	53,992
36 Extracurricular Activities	1,255,629	205,355	32,098	(1,018,176)
41 General Administration	798,371	-	28,478	(769,893)
51 Facilities Maintenance and Operations	2,275,539	1,220	43,953	(2,230,366)
52 Security and Monitoring Services	79,355	-	-	(79,355)
53 Data Processing Services	326,371	-	19,794	(306,577)
61 Community Services	260,523	-	9,480	(251,043)
72 Debt Service - Interest on Long Term Debt	544,146	-	-	(544,146)
73 Debt Service - Bond Issuance Cost and Fees	1,300	-	-	(1,300)
95 Payments to Juvenile Justice Alternative Ed. Prg.	10,880	-	-	(10,880)
99 Other Intergovernmental Charges	276,507	-	-	(276,507)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 21,623,683	\$ 686,207	\$ 2,947,830	(17,989,646)

Data Control Codes	General Revenues:		
Codes	Taxes:		
MT	Property Taxes, Levied for General Purposes		6,617,838
DT	Property Taxes, Levied for Debt Service		1,521,199
SF	State Aid - Formula Grants		10,550,656
IE	Investment Earnings		35,333
MI	Miscellaneous Local and Intermediate Revenue		513,802
TR	Total General Revenues		19,238,828
CN	Change in Net Position		1,249,182
NB	Net Position - Beginning		2,831,712
NE	Net Position--Ending		\$ 4,080,894

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

HILLSBORO INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2016

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 2,674,878	\$ 445,580	\$ 729,791	\$ 3,850,249
1120 Investments - Current	5,161	6,983	-	12,144
1220 Property Taxes - Delinquent	483,239	102,848	-	586,087
1230 Allowance for Uncollectible Taxes (Credit)	(43,492)	(9,256)	-	(52,748)
1240 Receivables from Other Governments	479,472	6,041	159,458	644,971
1260 Due from Other Funds	64,724	-	-	64,724
1290 Other Receivables	1,000	-	2,336	3,336
1000 Total Assets	<u>\$ 3,664,982</u>	<u>\$ 552,196</u>	<u>\$ 891,585</u>	<u>\$ 5,108,763</u>
LIABILITIES				
2110 Accounts Payable	\$ 161,842	\$ -	\$ 53,880	\$ 215,722
2160 Accrued Wages Payable	486,801	-	53,978	540,779
2170 Due to Other Funds	-	-	64,724	64,724
2180 Due to Other Governments	288,140	6,406	-	294,546
2200 Accrued Expenditures	8,867	-	5,231	14,098
2000 Total Liabilities	<u>945,650</u>	<u>6,406</u>	<u>177,813</u>	<u>1,129,869</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	439,748	93,591	-	533,339
2602 Deferred Inflow of Resources - Grants & Food Ser	25,000	-	6,825	31,825
2600 Total Deferred Inflows of Resources	<u>464,748</u>	<u>93,591</u>	<u>6,825</u>	<u>565,164</u>
FUND BALANCES				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	317,046	317,046
3470 Capital Acquisition and Contractual Obligation	-	-	325,149	325,149
3480 Retirement of Long-Term Debt	-	452,199	-	452,199
3490 Other Restricted Fund Balance	-	-	64,752	64,752
Assigned Fund Balance:				
3550 Construction	120,000	-	-	120,000
3560 Claims and Judgments	130,000	-	-	130,000
3570 Capital Expenditures for Equipment	100,000	-	-	100,000
3600 Unassigned Fund Balance	1,904,584	-	-	1,904,584
3000 Total Fund Balances	<u>2,254,584</u>	<u>452,199</u>	<u>706,947</u>	<u>3,413,730</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 3,664,982</u>	<u>\$ 552,196</u>	<u>\$ 891,585</u>	<u>\$ 5,108,763</u>

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

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

Total Fund Balances - Governmental Funds	\$ 3,413,730
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and staff daycare, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase (decrease) net position.	67,556
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$41,275,427 and the accumulated depreciation was \$20,308,178. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.	2,356,878
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2016 capital outlays and debt principal payments is to increase (decrease) net position.	1,656,885
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of 4,385,851, a Deferred Resource Inflow related to TRS in the amount of \$326,407 and a Deferred Resource Outflow related to TRS in the amount of \$1,994,686. This amounted to a decrease in Net Position in the amount of \$2,717,572.	(2,717,572)
5 The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(925,619)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unearned revenue as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.	229,036
19 Net Position of Governmental Activities	<u>\$ 4,080,894</u>

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 7,013,914	\$ 1,502,858	\$ 669,309	\$ 9,186,081
5800 State Program Revenues	10,912,882	51,162	109,622	11,073,666
5900 Federal Program Revenues	313,630	-	2,103,862	2,417,492
5020 Total Revenues	<u>18,240,426</u>	<u>1,554,020</u>	<u>2,882,793</u>	<u>22,677,239</u>
EXPENDITURES:				
Current:				
0011 Instruction	9,430,555	-	1,333,055	10,763,610
0012 Instructional Resources and Media Services	218,370	-	-	218,370
0013 Curriculum and Instructional Staff Development	200,373	-	105,005	305,378
0021 Instructional Leadership	283,190	-	-	283,190
0023 School Leadership	1,381,960	-	-	1,381,960
0031 Guidance, Counseling and Evaluation Services	352,797	-	2,916	355,713
0033 Health Services	153,413	-	-	153,413
0034 Student (Pupil) Transportation	342,839	-	-	342,839
0035 Food Services	-	-	936,020	936,020
0036 Extracurricular Activities	1,016,590	-	171,478	1,188,068
0041 General Administration	781,177	-	-	781,177
0051 Facilities Maintenance and Operations	2,208,327	-	-	2,208,327
0052 Security and Monitoring Services	79,355	-	-	79,355
0053 Data Processing Services	441,781	-	-	441,781
0061 Community Services	73,163	-	-	73,163
Debt Service:				
0071 Principal on Long Term Debt	116,636	1,270,001	-	1,386,637
0072 Interest on Long Term Debt	22,479	325,678	-	348,157
0073 Bond Issuance Cost and Fees	550	750	-	1,300
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	123,784	123,784
Intergovernmental:				
0095 Payments to Juvenile Justice Alternative Ed. Prg.	10,880	-	-	10,880
0099 Other Intergovernmental Charges	276,507	-	-	276,507
6030 Total Expenditures	<u>17,390,942</u>	<u>1,596,429</u>	<u>2,672,258</u>	<u>21,659,629</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	849,484	(42,409)	210,535	1,017,610
OTHER FINANCING SOURCES (USES):				
7913 Capital Leases	118,764	-	-	118,764
7915 Transfers In	-	-	123,784	123,784
8911 Transfers Out (Use)	(177,102)	-	-	(177,102)
7080 Total Other Financing Sources (Uses)	<u>(58,338)</u>	<u>-</u>	<u>123,784</u>	<u>65,446</u>
1200 Net Change in Fund Balances	791,146	(42,409)	334,319	1,083,056
0100 Fund Balance - September 1 (Beginning)	<u>1,463,438</u>	<u>494,608</u>	<u>372,628</u>	<u>2,330,674</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 2,254,584</u>	<u>\$ 452,199</u>	<u>\$ 706,947</u>	<u>\$ 3,413,730</u>

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

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

Total Net Change in Fund Balances - Governmental Funds	\$	1,083,056
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and staff daycare, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net position.		43,547
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2016 capital outlays and debt principal payments is to increase (decrease) net position.		1,656,885
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(925,619)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unearned revenue as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		(294,880)
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2015 caused the change in the ending net position to increase. Contributions made before the measurement but during the 2016 FY were also de-xpended and recorded as a reduction in the net pension liability for the district. This also caused a increase in the change in net position. The District recorded their proportionate share of the pension expense during the measurement period as part of the net pension liability. The amounts were expensed for FY2016 for pension expense columns 6 - 12 from TRS data and the amounts were de-expended for the net deferred resouce inflow recognized by TRS in the measurement period. This caused a net decrease in the change in net position. The impact of all of these is to decrease the change in net position by (\$313,807).		(313,807)
Change in Net Position of Governmental Activities	\$	1,249,182

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

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

EXHIBIT D-1

	Governmental Activities -
	Total Internal Service Funds
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 102,325
Total Assets	102,325
LIABILITIES	
Current Liabilities:	
Accounts Payable	5,935
Accrued Wages Payable	6,053
Accrued Expenses	22,781
Total Liabilities	34,769
NET POSITION	
Unrestricted Net Position	67,556
Total Net Position	\$ 67,556

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

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

	Governmental Activities -
	Total Internal Service Funds
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 168,426
State Program Revenues	7,328
Total Operating Revenues	<u>175,754</u>
OPERATING EXPENSES:	
Payroll Costs	182,987
Supplies and Materials	2,538
Total Operating Expenses	<u>185,525</u>
Income Before Transfers	(9,771)
Transfer In	<u>53,318</u>
Change in Net Position	43,547
Total Net Position - September 1 (Beginning)	<u>24,009</u>
Total Net Position - August 31 (Ending)	<u>\$ 67,556</u>

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

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

	Governmental Activities -
	Total Internal Service Funds
<u>Cash Flows from Operating Activities:</u>	
Cash Received from User Charges	\$ 7,328
Cash Received from Assessments - Other Funds	168,426
Cash Payments to Employees for Services	(144,640)
Cash Payments for Insurance Claims	(30,996)
Cash Payments for Suppliers	(2,538)
Net Cash Used for Operating Activities	(2,420)
<u>Cash Flows from Capital & Related Financing Activities:</u>	
Capital Contributed by Other Funds	53,318
Net Increase in Cash and Cash Equivalents	50,898
Cash and Cash Equivalents at Beginning of Year	51,427
Cash and Cash Equivalents at End of Year	\$ 102,325
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income (Loss):	\$ (9,771)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Accounts Payable	7,351
Net Cash Used for Operating Activities	\$ (2,420)
<u>Reconciliation of Total Cash and Cash Equivalents:</u>	
Cash and Cash Equivalents on Balance Sheet	\$ 102,325
Restricted - Cash and Cash Equivalents on Balance	-
Total Cash and Cash Equivalents	\$ 102,325

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

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

EXHIBIT E-1

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ -	\$ 66,719
Restricted Assets	254,691	-
Total Assets	254,691	\$ 66,719
LIABILITIES		
Accounts Payable	-	\$ 1,974
Due to Student Groups	-	64,745
Total Liabilities	-	\$ 66,719
NET POSITION		
Restricted for Scholarships	57,655	
Restricted for Other Purposes	197,036	
Unrestricted Net Position	-	
Total Net Position	\$ 254,691	

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

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

EXHIBIT E-2

	Private Purpose Trust Funds
<hr/>	
ADDITIONS:	
Local and Intermediate Sources	\$ 69,056
Total Additions	<u>69,056</u>
DEDUCTIONS:	
Professional and Contracted Services	4,000
Supplies and Materials	1,505
Other Operating Costs	57,621
Total Deductions	<u>63,126</u>
Change in Net Position	5,930
Total Net Position - September 1 (Beginning)	<u>248,761</u>
Total Net Position - August 31 (Ending)	<u>\$ 254,691</u>

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

HILLSBORO INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Hillsboro Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District also complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity as amended by GASB Statement 61. The only component unit included within the reporting entity is the Hillsboro Educational Foundation which is included as a fiduciary component unit.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the **Hillsboro Independent School District** non-fiduciary activities with most of the inter-fund activities removed. *Governmental activities* include programs supported primarily by taxes, state foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

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

Inter-fund activities between governmental funds and between governmental funds and proprietary funds appear as due to/due from on the Governmental Fund Balance Sheet and Proprietary Fund Statement of Net Position and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance and on the Proprietary Fund Statement of Revenues, Expenses and Changes in Fund Net Position. All inter-fund transactions between governmental funds and between governmental funds and internal service funds are eliminated on the government-wide statements. Inter-fund activities between governmental funds and enterprise funds remain on the government-wide statements and appear on the government-wide Statement of Net Position as internal balances and on the Statement of Activities as Inter-fund transfers. Inter-fund activities between governmental funds and fiduciary funds remain as due to/due from on the government-wide Statement of Activities.

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

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

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

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

Governmental fund financial statements use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 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, that is, when they are both measurable and available. The District considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

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

D. FUND ACCOUNTING

The District reports the following major governmental funds:

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

Special Revenue Fund – The District did not maintain major special revenue governmental funds during the current year.

Capital Projects Fund - The District did not maintain major capital project governmental funds during the current year.

Debt Service Fund - The District did maintain major debt service governmental funds during the current year.

Other Governmental Fund - The District did not maintain other major governmental funds during the current year.

The District reports the following major enterprise fund(s):

The District does not maintain major enterprise funds at present.

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

Governmental Funds:

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

Debt Service Funds – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund when applicable.

Capital Projects Funds – Proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund when applicable.

Permanent Funds – The District accounts for donations which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the District's programs when applicable.

Proprietary Funds:

Enterprise Funds – The District's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund when applicable.

Internal Service Funds – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis (such as workers' compensation and child care) are accounted for in an internal service fund when applicable.

Fiduciary Funds:

Private Purpose Trust Funds – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. When applicable, the District maintains a private purpose trust fund to provide scholarships for students that have graduated from the District.

Pension (and Other Employee Benefit) Trust Funds – These funds are used to account for local pension and other employee benefit funds that are provided by the District in lieu of or in addition to the Teacher Retirement System of Texas when applicable.

Investment Trust Fund – When applicable, this fund is used by the District to hold assets in trust for other entities participating in an investment program managed by the district.

Agency Funds – The District accounts for resources held for others in a custodial capacity in agency funds including funds used to account for student activities.

There are no balances due to the internal service funds from the general fund. When amounts do exist, they are the result of obligations made to maintain capital for the operation of each internal service fund for such activities as self-insurance; the balance is not scheduled to be collected in the subsequent year.

All remaining balances, if any, resulted from the time lag between the dates that (1) inter-fund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

During the current year ended August 31, 2016, the District did not make a one-time transfer of funds from the general fund to the debt service fund to subsidize, in part, the District's obligation of interest and sinking fund requirements

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have maturity of three months or less when purchased.
2. The District reports inventories of supplies using the first-in, first-out inventory cost method. The supplies include consumable maintenance, instructional, office, athletic, and transportation items. Under the purchase method, supplies are recorded as expenditures when they are purchased. Inventories of food commodities are recorded at market values supplied by the Department of Agriculture. Although commodities are received at no cost, their fair market value is supplied by the Department of Agriculture and recorded as revenue and expenditures when received. Material inventories (if any) including food commodities are recorded as an asset and a corresponding amount of expenditures are reduced at year-end.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

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

4. It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.
5. Capital assets, which include land, buildings, furniture and equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

ASSETS	YEARS
Buildings	50
Buildings and Improvements	40
Infrastructure	40
Vehicles	10
Office Equipment	10
Computer Equipment	10

6. Since Internal Service Funds in the District support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the District as a whole.
7. Restricted assets, if applicable, of the District are limited to cash and certificates of deposit which have been gifted to the District with the stipulation that only the earnings are available for current and future scholarship recipients.
8. The Districts that participate in self-funded workers' compensation programs execute inter-local agreements that define the responsibilities of the parties. The program, if applicable, provides statutory workers' compensation benefits to its members and their injured employees.
9. Net Position and Fund Balances:

Government-wide and Proprietary Fund Net Position-

Government-wide and proprietary fund net positions are divided into three components:

- Net investment in capital assets—consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted net position—consist of assets that are restricted by the District's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted—all other net position is reported in this category.

Governmental Fund Balances:

In the governmental fund financial statements, fund balances are classified as follows-

- Non-spendable—Amounts that cannot be spent either because they are in a non-spendable form or because they are legally or contractually required to be maintained intact.
- Restricted—Amounts that can be spent only for specific purposes because of the District's state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed—Amounts that can be used only for specific purposes determined by a formal action by Board of Trustees' ordinance.
- Assigned—Amounts that are designated by the Superintendent for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by the Board of Trustees.
- Unassigned—All amounts not included in other spendable classifications.

10. Use of Restricted Resources:

When an expenditure/expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expenditure/expense toward restricted resources and then toward unrestricted resources. In governmental funds, the District's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed and then assigned fund balances before using unassigned fund balances.

11. As of the end of this fiscal year, the District prospectively applies Governmental Accounting Standards Board (“GASB”) Statement No. 72, Fair Market Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

12. Investment income reported in one fund has not been assigned directly to another fund by the District.

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

14. Deferred Outflows of Resources:

The District reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statements of net position. There is no deferred outflow of resources reported in this year's financial statements. No deferred outflows of resources affect the governmental funds financial statements in the current year.

15. Deferred Inflows of Resources:

The District's governmental funds report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). The District will not recognize the related revenues until a future event occurs. The District has only three types of items which occur because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's fiscal year) under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, deferred property taxes, private grants, and prepaid meals are reported in the governmental funds balance sheet. The District only reported deferred inflows of resources in its government-wide or proprietary fund financial statements for the current year for the private grants and the prepaid meals.

16. Pensions:

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

Capital Assets at the Beginning of the Year	Historical Cost	Accumulated Depreciation	Net Value at Beginning of Year	Change in Net Position
Land	\$ 1,360,560	\$ -	\$ 1,360,560	
Buildings and Improvements	36,732,292	(18,017,015)	18,715,277	
Furniture and Equipment	3,182,575	(2,291,163)	891,412	
Construction in Progress	69,665	-	69,665	
Change in Net Position				\$ 21,036,914
Long-term Liabilities and Deferred Outflows and Inflows at the Beginning of the Year			Payable at Beginning of Year	
Bonds Payable			\$ 13,674,164	
Accreted Interest on CAB Bonds			3,844,645	
Add Unamortized Bond Premium / Discount			543,619	
Notes and Capital Leases Payable			667,729	
Accrued Interest - Bonds, Notes, and Capital Leases			8,959	
Deferred Resource of Outflows for Bond Refunding			(69,529)	
Deferred Resource of Inflows			10,449	
Change in Net Position				18,680,036
Net Adjustment to Net Position				\$ 2,356,878

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

Exhibit C-4 provides reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net position balance and the change in net position shown in Exhibit C-2 and Exhibit C-4. The details of this adjustment are as follows:

	Amount	To Changes in Net Position	Adjustments to Net Position
Current Year Capital Outlay			
Land	\$ -		
Buildings & Improvements	144,985		
Furniture & Equipment	125,264		
Construction in Progress	-		
Total Capital Outlay	<u>270,249</u>	270,249	270,249
Debt Principal Payments			
Bond Principal	1,270,000		
Note Principal Payments	75,000		
Capital Lease Payments	41,636		
CAB Bond Accreted Interest Paid	-		
Total Principal Payments	<u>1,386,636</u>	1,386,636	1,386,636
Total Adjustment to Net Position		\$ 1,656,885	\$ 1,656,885

Another element of the reconciliation on Exhibits C-2 and C-4 are described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details of this adjustment are as follows:

	Amount	Adjustments to Change in Net Position	Adjustments to Net Position
Adjustments to Revenue, Deferred Inflows, Beg. Net Position:			
Beg. of Year Unearned Tax Revenue/Internal Service	\$ 523,916		\$ 523,916
Property tax adjustments to convert from the modified accrual basis to the full accrual basis of accounting	\$ 19,872	\$ 19,872	19,872
Other Revenue/Expense Adjustments	\$ 1	1	1
Reclassify Proceeds of Bonds, Loans & Capital Leases:			
New Bond Issue	\$ -	-	-
Discount (Premium) or Deferred Charge on Issuance of Bonds	\$ -	-	-
New Loans / Capital Leases Issued	\$ (118,764)	(118,764)	(118,764)
Reclassify Certain Expenditures to Full Accrual From Modified Accrual:			
Debt Refunding Bond Payment	\$ -	-	-
Adjust Interest and Fees on Long-term Debt	\$ 32,789	32,789	32,789
Accretion of Interest on CAB Bonds	\$ (228,778)	(228,778)	(228,778)
Basis on Disposition of Capital Assets	\$ -	-	-
Totals		\$ (294,880)	\$ 229,036

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

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

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.

3. Prior to September 1, the budget is legally enacted through passage of a resolution by the board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. **These amendments included additional appropriation for various functions as detailed in Exhibit G-1.**

4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as adopted and amended by the Board of Trustees. All budget appropriations lapse at year-end. A reconciliation of fund balances for both appropriated budget and non-appropriated budget special revenue funds is as follows:

	August 31, 2016 Fund Balance
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ 317,046
Non-appropriated Budget Funds	64,752
All Special Revenue Funds	\$ 381,798

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The District **did not incur a material excess of expenditures over appropriations** in any of the legally required budgeted funds during the current year. However, the District did incur non-material excesses of expenditures over appropriations in the school leadership, facilities maintenance and operations, and principal on long-term debt in the general fund from recording additional year-end accounts payable and a capital lease adjustment.

C. DEFICIT FUND EQUITY

The District **did not incur a deficit fund balance** in any fund during the current school year.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

The carrying amount of the District's cash and temporary investments at the end of the fiscal year follows:

CASH AND INVESTMENTS - BY ACCOUNT TYPE	8/31/2016
Cash in Bank - Including Money Market Accounts	\$ 4,271,569
Cash on Hand	2,415
Certificates of Deposit	-
TexPool Participant Services Investment Pool Funds	12,144
Total Cash and Investments	\$ 4,286,128
CASH AND INVESTMENTS - BY FUND	8/31/2016
Cash and Investments - General Fund	\$ 2,680,039
Cash and Investments - Major Debt Service Funds	452,563
Cash and Investments - Non-Major Governmental	729,791
Cash and Investments - Enterprise	-
Cash and Investments - Internal Service	102,325
Cash and Investments - Agency	66,719
Cash and Investments - Trusts	254,691
Cash and Investments - Other	-
Total Cash and Investments	\$ 4,286,128

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits: State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. The District's cash deposits at year end and at the date of the highest cash balance were entirely covered by FDIC insurance and/or pledged collateral or bond held by the District's agent bank in the District's name, and therefore, the District was not exposed to custodial credit risk during the current year.

Foreign Currency Risk: The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by (state an appropriate policy, such as, limiting all deposits denominated in a foreign currency to less than 5% of all deposits.)

As of the end of the current fiscal year, the following are the District's cash and cash equivalents with respective maturities and credit rating:

Type of Deposit for Cash and Cash Equivalents	Fair Value	Percent	Maturity in less than 1 year	Maturity in 1 - 10 years	Maturity in Over 10 Years	Credit Rating
Cash	\$ 4,273,984	99.72%	\$ 4,273,984	\$ -	\$ -	n/a
Money markets and FDIC Insured Accounts	-	0.00%	-	-	-	n/a
Investment Pools:						
Tex Pool	12,144	0.28%	12,144	-	-	AA
Total Cash and Cash Equivalents	\$ 4,286,128	100.00%	\$ 4,286,128	\$ -	\$ -	

Investments

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity 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, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) No load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas Public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing investments for the District are specified below:

Credit Risk: To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in (list investments covered by the district's credit risk policy, such as commercial paper, corporate bonds, mutual bond funds) to the top (or top 2 or 3) ratings issued by nationally recognized statistical rating organizations (NRSROs). As of the current fiscal year, the district's investments in (category such as commercial paper) were rated (give appropriate information, for example, A1 by Standard & Poor's, F-1 by Fitch Ratings, etc.) (If a credit quality disclosure is required and the investment is unrated, the disclosure should indicate that fact.)

Custodial Credit Risk for Investments: To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the district and hand them over to the District or its designated agent. This includes securities in securities lending transactions. All of the securities are in the District's name and held by the District or its agent.

Concentration of Credit Risk: To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

Interest Rate Risk: To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires (specify some policy guideline such as "at least half of the investment portfolio to have maturities of less than one year on a weighted average maturity basis").

Foreign Currency Risk for Investments: The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by avoiding all investments denominated in a foreign currency.

The District categorizes its fair value measurements with 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. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

As of the end of the current fiscal year, the District had no investments subject to the fair value measurement.

The District also has no investments measured at the Net Asset Value (NAV) per Share (or its equivalent).

B. 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 located in the District 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 31 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 (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

C. DELINQUENT TAXES RECEIVABLE

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

D. INTERFUND BALANCES AND TRANSFERS

Inter-fund balances at year end consisted of the following amounts:

FUND	Due From Other Funds	Due To Other Funds
General Fund		
Major Governmental Funds	\$ -	\$ -
Non-major Governmental Funds	64,724	-
Internal Service Funds	-	-
All Others	-	-
Total General Fund	<u>\$ 64,724</u>	<u>\$ -</u>
Major Governmental Funds		
General Fund	\$ -	\$ -
Non-major Governmental Funds	-	-
Internal Service Funds	-	-
All Others	-	-
Total Major Governmental Funds	<u>\$ -</u>	<u>\$ -</u>
Non-major Governmental Funds		
General Fund	\$ -	\$ 64,724
Other Major Governmental Funds	-	-
Internal Service Funds	-	-
All Others	-	-
Total Non-major Governmental Funds	<u>\$ -</u>	<u>\$ 64,724</u>
Internal Service Funds		
General Fund	\$ -	\$ -
Major Governmental Fund	-	-
Non-major Governmental Funds	-	-
All Others	-	-
Total Internal Service Funds	<u>\$ -</u>	<u>\$ -</u>
All Other Funds		
General Fund	\$ -	\$ -
All Others	-	-
Total All Other Funds	<u>\$ -</u>	<u>\$ -</u>
Total Interfund Receivables / Payables	<u>\$ 64,724</u>	<u>\$ 64,724</u>

The balance of \$0 due to the internal service funds from the general fund results from obligations made to maintain capital for the operation of the self-insured internal service fund; \$0 of the balance is not scheduled to be collected in the subsequent year. The balance of \$64,724 from non-major governmental funds to the general fund resulted from working capital amounts that will be transferred to the general fund the following year.

Inter-fund transfers for the current year end consisted of the following individual amounts:

FUND	Transfers In	Transfers Out
General Fund		
Major Governmental Funds	\$ -	\$ -
Non-major Governmental Funds	-	123,784
Internal Service Funds	-	53,318
All Others	-	-
Total General Fund	<u>\$ -</u>	<u>\$ 177,102</u>
Major Governmental Funds		
General Fund	\$ -	\$ -
Non-major Governmental Funds	-	-
Internal Service Funds	-	-
All Others	-	-
Total Major Governmental Funds	<u>\$ -</u>	<u>\$ -</u>
Non-major Governmental Funds		
General Fund	\$ 123,784	\$ -
Other Major Governmental Funds	-	-
Internal Service Funds	-	-
All Others	-	-
Total Non-major Governmental Funds	<u>\$ 123,784</u>	<u>\$ -</u>
Internal Service Funds		
General Fund	\$ 53,318	\$ -
Major Governmental Fund	-	-
Non-major Governmental Funds	-	-
All Others	-	-
Total Internal Service Funds	<u>\$ 53,318</u>	<u>\$ -</u>
All Other Funds		
General Fund	\$ -	\$ -
Major Governmental Funds	-	-
Non-major Governmental Funds	-	-
Internal Service Funds	-	-
Total All Other Funds	<u>\$ -</u>	<u>\$ -</u>
Total Interfund Transfers	<u>\$ 177,102</u>	<u>\$ 177,102</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and to cover operating deficits in funds such as the Food Service Funds. The District did not make an operating transfer to the Food Service Fund during the current year; however, did make transfers from the general operating to the capital projects funds of \$123,784 for current year expenditures. A transfer from the general fund to internal service funds of \$53,318 was incurred to provide for day care operations for District employees.

During the current year ended August 31, 2016, the District did not make a one-time transfer of funds from the general fund to the debt service fund to subsidize, in part, the District's obligation of interest and sinking fund requirements.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at year end were as follows:

	Property Taxes	Other Governments	Due From Other Funds	Other	Total Receivables
Governmental Activities:					
General Fund	\$ 483,239	\$ 479,472	\$ 64,724	\$ 1,000	\$ 1,028,435
Major Governmental Fund D/S	102,848	6,041	-	-	108,889
Major Governmental Fund	-	-	-	-	-
Non-major Governmental Funds	-	159,458	-	2,336	161,794
Internal Service Funds	-	-	-	-	-
Total Governmental Activities	\$ 586,087	\$ 644,971	\$ 64,724	\$ 3,336	1,299,118
Amounts not scheduled for collection during subsequent year	\$ -	\$ -	\$ -	\$ -	\$ -
Business-type Activities:					
Major Enterprise Fund	\$ -	\$ -	\$ -	\$ -	\$ -
Non-major Enterprise Funds	-	-	-	-	-
Total Business-type Activities	\$ -	\$ -	\$ -	\$ -	\$ -

Payables at year end were as follows:

	Accounts Payable	Salaries Payable	Accrued Expenditures /Expense Payable	Due To Other Funds	Due To Other Govt.	Other	Total Payables
Governmental Activities:							
General Fund	\$161,842	\$486,801	\$ 8,867	\$ -	\$ 288,140	\$ -	\$ 945,650
Major Governmental Fund D/S	-	-	-	-	6,406	-	6,406
Major Governmental Fund	-	-	-	-	-	-	-
Non-major Governmental Funds	53,880	53,978	5,231	64,724	-	-	177,813
Internal Service Funds	5,935	6,053	22,781	-	-	-	34,769
Total Governmental Type Activities	\$221,657	\$546,832	\$ 36,879	\$ 64,724	\$ 294,546	\$ -	\$ 1,164,638
Amounts not scheduled for payment during subsequent year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business-Type Activities:							
Major Enterprise Fund	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Non-major Enterprise Fund	-	-	-	-	-	-	-
Total Business-Type Activities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the current year was as follows:

	Primary Government			
	Beginning Balance	Additions	Retirements	Ending Balance
Governmental Activities:				
Non-Depreciable Assets-				
Land	\$ 1,360,560	\$ -	\$ -	\$ 1,360,560
Construction In Progress	69,665	-	69,665	-
Depreciable Assets-				
Buildings and Improvements	36,732,292	214,650	(1)	36,946,943
Furniture and Equipment	3,182,575	125,264	-	3,307,839
Infrastructure	-	-	-	-
Totals at Historic Cost	\$ 41,345,092	\$ 339,914	\$ 69,664	\$ 41,615,342
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 18,017,015	\$ 773,728	(1)	\$ 18,790,743
Furniture and Equipment	2,291,163	151,891	-	2,443,054
Infrastructure	-	-	-	-
Total Accumulated Depreciation	\$ 20,308,178	\$ 925,619	\$ (1)	\$ 21,233,797
Governmental Activities Capital				
Assets-Net	\$ 21,036,914	\$ (585,705)	\$ -	\$ 20,381,545
Business-type Activities:				
Non-Depreciable Assets-				
Land	\$ -	\$ -	\$ -	\$ -
Depreciable Assets-				
Buildings and Improvements	-	-	-	-
Furniture and Equipment	-	-	-	-
Capital Leases	-	-	-	-
Totals at Historic Cost	\$ -	\$ -	\$ -	\$ -
Less Accumulated Depreciation				
Buildings and Improvements	\$ -	\$ -	\$ -	\$ -
Furniture and Equipment	-	-	-	-
Capital Leases	-	-	-	-
Total Accumulated Depreciation	\$ -	\$ -	\$ -	\$ -
Business-type Activities Capital				
Assets- Net	\$ -	\$ -	\$ -	\$ -

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 732,500
Instructional Resources and Media Services	-
Curriculum Development and Instructional Staff Development	-
Instructional Leadership	-
School Leadership	560
Guidance, Counseling and Evaluation Services	-
Social Work Services	-
Health Services	-
Student (Pupil) Transportation	40,943
Food Services	12,443
Cocurricular/Extracurricular Activities	50,628
General Administration	1,231
Plant Maintenance and Operations	87,314
Security and Monitoring Service	-
Data Processing Services	-
Community Services	-
Contracted Instructional Services Between Schools	-
In addition, depreciation on capital assets held by the District's Internal Service	-
Total Depreciation Expense	\$ 925,619

The District has no capital assets that are not being depreciated as of the current fiscal year end except for land and construction in progress.

G. SHORT-TERM DEBT PAYABLE

The District accounts for short-term debts for maintenance purposes through the General Fund. Short-term debts include notes made in accordance with the provisions of the Texas Education Code Section 45.108. The proceeds from loans are shown in the governmental fund financial statements as Other Resources and principal payments are shown as Other Uses. As shown by the following table, the District has no short-term debt payable.

Date of Issue/ Maturity	Description	Beginning Balance	Amount Issued	Amount Redeemed	Ending Balance
None		\$ -	\$ -	\$ -	\$ -

H. BONDS AND LONG-TERM NOTES PAYABLE

Bonded indebtedness of the District is reflected in the General Long-Term Debt Account Group. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. A summary of changes in general long-term debt for the current year end is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Payable Amounts		Retired	Payable
				Outstanding 9/1/2015	Additions / Issued		Outstanding 8/31/2016
2001 Sch Bld/Ref Bonds	3.75%-5.50%	\$ 11,914,164	\$ -	\$ 114,164	\$ -	\$ -	\$ 114,164
2001 CAB Bonds Accr. Int.	3.75%-5.71%	\$ -	-	3,844,645	228,778	-	4,073,423
2012 Maintenance Tax Notes	3.68%-3.68%	\$ 800,000	21,528	585,000	-	75,000	510,000
2014 Tax Ref Bonds	2.00%-3.00%	\$ 7,070,000	182,850	6,460,000	-	510,000	5,950,000
2015 Tax Ref Bonds	6.00%-4.00%	\$ 7,100,000	142,828	7,100,000	-	760,000	6,340,000
2015 Apple Capital Lease	3.63%	\$ 83,680	951	82,729	-	28,206	54,523
2015 Phone Capital Lease	4.44%	\$ 118,764	-	-	118,764	13,432	105,332
TOTAL			\$ 348,157	\$ 18,186,538	\$ 347,542	\$ 1,386,638	\$ 17,147,442

The District did not issue building or refunding bonds during the year ended August 31, 2016. On July 28, 2015, the District issued general obligation bonds (Series 2015 Tax Refunding Bonds) of \$7,100,000 (par value) with an interest rates ranging between 2.04% and 2.04%. The District issued the bonds to refund \$7,100,000 of the 2006 Series Tax School Bonds with interest rates ranging between 3.6% and 4.0%. The refunding bonds were issued at par, and after receiving a premium of \$0 and accrued interest of \$0, paying issuance costs of \$65,788, the net proceeds were \$7,034,212. The net proceeds were used to retire the 2006 School Building Bonds and accrued interest during the year ended August 31, 2015. As a result of the refunding, the District decreased its total debt service requirement by \$980,528, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of \$841,882 during the 2015 year.

In prior years, the District has defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, trust account assets and liabilities for the defeased bonds are not included in the District's financial statements. After the July 2015 retirement of defeased bonds, the District had \$0 in bonds considered defeased and still outstanding.

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

I. COMMITMENTS UNDER OPERATING LEASES

Commitments under operating (non-capitalized) lease agreements for facilities and equipment provide for minimum future rental payments at year end as follows (the imputed interest on the leases range from 5.50% to 5.50%:

Year Ending August 31	
2017	\$ 93,125
2018	93,125
2019	77,604
2020	-
2021	-
2022-2026	-
2027-2031	-
Total Minimum Future Rentals	\$ 263,854
Rental Expenditures in Fiscal Year 2016	\$ 111,416

J. DEBT SERVICE REQUIREMENTS – BONDS, CAPITAL LEASES, & OTHER LONG-TERM DEBT

Debt service requirements for bonds and tax maintenance notes payable are as follows:

General Obligations - Bonds and Notes Payable			
Year Ended August 31	Principal	Interest	Total Requirements
2017	\$ 1,207,999	\$ 319,020	\$ 1,527,019
2018	1,245,000	288,057	1,533,057
2019	1,268,000	261,564	1,529,564
2020	1,296,000	234,558	1,530,558
2021	1,335,000	201,284	1,536,284
2022-2026	6,448,000	495,086	6,943,086
2027-2031	114,164	8,550,836	8,665,000
2032-2036	-	-	-
2037-2041	-	-	-
2042-2046	-	-	-
Totals	\$ 12,914,163	\$ 10,350,405	\$ 23,264,568

Debt Service Requirements for Interest include \$4,073,423 currently in CAB Bonds accreted interest.

Capital Leases and Other Long-Term Debt

The District was obligated for capital leases as of or during the current year. The purpose of capital leases is for the purchase of equipment; capital leases are authorized under the Texas Education Code 48.05, the total amount capitalized under the capital leases is **\$202,444**, the minimum annual payments are listed below, and the effective rate of interest is **3.63% and 4.44%**. Debt service requirements for capital leases are as follows:

Capital Lease Obligations			
Year Ended August 31	Principal	Interest	Total Requirements
2017	\$ 46,839	\$ 6,071	\$ 52,910
2018	47,766	5,144	52,910
2019	20,793	2,959	23,752
2020	21,736	2,016	23,752
2021	22,722	1,031	23,753
2022-2026	-	-	-
2027-2031	-	-	-
2032-2036	-	-	-
2037-2041	-	-	-
2042-2046	-	-	-
Total Capital Lease Payments	\$ 159,856	\$ 17,221	\$ 177,077

K. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Upon retirement or death of certain employees, the District pays any accrued sick leave and vacation leave in "lump sum" cash payment to such employee or his/her estate. Individuals employed after October 1, 1985, are not eligible to receive the lump sum payments. A summary of changes in the accumulated sick leave and vacation leave liability follows:

	Sick Leave	Vacation Leave
Balance September 1, 2015	\$ -	\$ -
Additions - New Entrants and Salary Increments	-	-
Deductions - Payments to Participants	-	-
Balance August 31, 2016	\$ -	\$ -

L. DEFINED BENEFIT PENSION PLAN

a. Plan Description

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

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.

b. Pension Plan Fiduciary Net Position

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

c. Benefits Provided

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

d. Contributions

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

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

	Contribution Rates	
	2015	2016
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2015 Employer Contributions		\$ 380,701
2015 Member Contributions		\$ 852,720
2015 NECE On-Behalf Contributions		\$ 578,922
<u>Payments made by the State On-Behalf of the District for Medicare, Part D:</u>		
Fiscal year 2014 Medicare, Part D On-Behalf		\$ 29,820
Fiscal year 2015 Medicare, Part D On-Behalf		\$ 47,190
Fiscal year 2016 Medicare, Part D On-Behalf		\$ 46,453

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

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

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

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

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

e. Actuarial Assumptions

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

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected investment rate of return	8.00%
Inflation	2.50%
Salary Increases including inflation	3.5 % to 9.5%
Payroll Growth Rate	2.50%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

f. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non- employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 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 (1)
Global Equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S.Developed	13.0%	5.1%	0.8%
Emergin Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0.0%	1.8%	0.0%
Hedge Funds (Stable Value)	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real Return			
Global Inflation-Linked Bonds	3.0%	0.9%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy & Natural Resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk Parity			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100.0%		8.7%

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

g. Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$ 6,871,801	\$ 4,385,851	\$ 2,315,208

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

At August 31, 2016, the Hillsboro Independent School District reported the liability for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the Hillsboro Independent School District. The amount recognized by the Hillsboro Independent School 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 Hillsboro Independent School District were as follows:

District's proportionate share of the collective net pension liability	\$ 4,385,851
State's proportionate share that is associated with the District	<u>6,909,071</u>
Total	<u>\$ 11,294,922</u>

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

At August 31, 2015, the employer's proportion of the collective net pension liability and the percentage increase (decrease) from its proportion measured as of August 31, 2014 are shown in the required supplementary information in Exhibit G-2.

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

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

Mortality Assumptions

5. 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.
6. 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.
7. 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

8. 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.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
11. 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.
12. 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

13. 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 Hillsboro Independent School district recognized the following:

Year Ended August 31, 2016 pension expense	\$ 984,431
Revenue for support provided by the State	\$ 984,431

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ 29,086	\$ 168,552
Changes in actuarial assumptions	122,248	156,468
Differences between projected and actual investment earnings	561,764	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	900,887	1,387
Total as of August 31, 2015 measurement date	\$ 1,613,985	\$ 326,407
Contributions paid to TRS subsequent to the measurement date	380,701	
Total as of fiscal year-end	\$ 1,994,686	\$ 326,407

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

Year ended August 31,	Pension Expense Amount
2017	\$ 225,179
2018	225,179
2019	225,179
2020	397,972
2021	126,127
Thereafter	87,942

M. HEALTH CARE COVERAGE

The District provided health insurance coverage for employees under the provisions of the Teacher Retirement System of Texas (TRS) active care health insurance plan during the current year. The District paid premiums per month per employee to the plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. The plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

N. CHANGES IN LONG-TERM LIABILITIES

Long-term activity as shown in the Statement of Net Position at year end was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds	\$ 13,674,164	\$ -	\$ 1,270,000	\$ 12,404,164	\$ 1,130,000
Maintenance Tax Notes	585,000	-	75,000	510,000	78,000
Unamortized Prem/Disc - Bonds	543,619	-	44,193	499,426	-
Total Bonds and Notes Payable	\$ 14,802,783	\$ -	\$ 1,389,193	\$ 13,413,590	\$ 1,208,000
Other Liabilities:					
Capital Leases	\$ 82,729	\$ 118,764	\$ 41,638	\$ 159,855	\$ 46,838
Net Pension Liability TRS	2,261,359	2,124,492	-	4,385,851	-
Interest Accretion-CAB Bonds	3,844,645	228,778	-	4,073,423	-
Accrued Interest Payable	8,959	14,042	8,959	14,042	14,042
Total Other Liabilities	\$ 6,197,692	\$ 2,486,076	\$ 50,597	\$ 8,633,171	\$ 60,880
Total Governmental Activities Long-Term Liabilities	\$ 21,000,475	\$ 2,486,076	\$ 1,439,790	\$ 22,046,761	\$ 1,268,880
Business-type Activities:					
Bonds and Notes Payable:					
Food Service	\$ -	\$ -	\$ -	\$ -	\$ -
Less Deferred Amounts	-	-	-	-	-
Total Bonds & Notes Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Other Liabilities:					
Compensated Absences	\$ -	\$ -	\$ -	\$ -	\$ -
Other Long-term Liabilities	-	-	-	-	-
Total Other Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Total Business-type Activities Long-Term Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -

**O. DEFERRED INFLOWS - UNEARNED REVENUE - GOVERNMENTAL FUND
FINANCIAL STATEMENTS**

Deferred Inflows - Unearned revenue at year-end consisted of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Total
Unavailable Tax Revenue	\$ 439,748	\$ -	\$ 93,591	\$ 533,339
Private Grants	25,000	-	-	25,000
Prepaid Lunches	-	6,825	-	6,825
Total Deferred Inflows	\$ 464,748	\$ 6,825	\$ 93,591	\$ 565,164

P. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments at year end are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as "Due from State Agencies" except for some federal programs which are received directly from the federal government for grants such as the REAP Program.

FUND	DUE FROM STATE- FOUNDATION ENTITLEMENTS	DUE FROM STATE-STATE & FEDERAL GRANTS	DUE FROM OTHER GOVERNMENTS	TOTAL
General	\$ 450,374	\$ -	\$ 29,098	\$ 479,472
Special Revenue	-	159,458	-	159,458
Debt Service	-	-	6,041	6,041
Totals	\$ 450,374	\$ 159,458	\$ 35,139	\$ 644,971

Q. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$ 6,522,281	\$ -	\$ 1,475,696	\$ -	\$ 7,997,977
Penalties, Interest and Other Tax- Related Income	89,508	-	18,135	-	107,643
Investment Income	24,109	2,198	9,027	-	35,334
Foundations, Gifts and Bequests	22,043	-	-	-	22,043
Food Sales	-	182,159	-	-	182,159
Co-curricular Student Activities	47,284	158,071	-	-	205,355
Tuition and Fees	21,063	-	-	-	21,063
Insurance Recovery, SSA, & Other	287,626	1,732	-	325,149	614,507
Totals	\$ 7,013,914	\$344,160	\$ 1,502,858	\$325,149	\$ 9,186,081

R. LITIGATION

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is aware of pending exposure to claims related to these areas; however, legal counsel and the District do not expect any financial exposure to assets of the District.

S. CONSTRUCTION & OTHER SIGNIFICANT COMMITMENTS & CONTINGENCIES

The District at year end had not incurred or made any additional commitments and/or contingencies in connection with construction or other areas of significance.

T. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District was a member of the Hill County Shared Services Arrangement ("SSA"). The SSA provides services for juvenile justice alternative education to member districts. Malone Independent School District is the fiscal agent for the SSA. In addition to the District, other member districts participated in the alternative education cooperative. The fiscal agent provided SSA services. The member districts provided the funds to the fiscal agent. The Shared Services Arrangements – Juvenile Justice Alternative Education had been accounted for using Model 3 in the SSA section of the TEA Resource Guide. The District had accounted for the payments to the fiscal agent of the SSA in the General Fund as intergovernmental expenditures. The District’s expenditures to the SSA for the current year were as follows:

Shared Services Arrangement	Type of Services	Fiscal Agent	Funding Source	Fiscal	District	Program Expenditures Current Year
				Agent Special Revenue Fund	Special Revenue Fund	
	Alternative Education		Local Revenue			
Hillsboro ISD		Malone ISD		446	N.A.	\$ 10,880
TOTAL FUNCTION 95 EXPENDITURES						\$ 10,880

The district does not participate in shared service arrangements with other school districts for various other educational activities. In addition to the District, other member districts participate in the educational cooperatives and the fiscal agent provides SSA services. The funding for each activity is received by the fiscal agent from the grantor agency. The fiscal agent then provides the funds to the member districts. According to guidance provided in TEA’s Resource Guide, the Fiscal Agent has accounted for the fiscal agent’s activities of the SSA in a Special Revenue Fund. The Shared Services Arrangements has been accounted for using Model 1 in the SSA section of the TEA Resource Guide. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, 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 share services arrangement. Presented below are the shared service arrangements in which the District participates and the extent of funding received and expended under each program.

Shared Services Arrangement	Type of Services	Fiscal Agent	Funding Source	Fiscal	District	Program Expenditures Current Year
				Agent Special Revenue Fund	Special Revenue Fund	
None		Hillsboro ISD				\$ -

U. SUBSEQUENT EVENTS

In preparing the basic financial statements, District administration has evaluated events and transactions for potential recognition or disclosure through **December 12, 2016**, the date this Annual Financial Report was issued. No material subsequent events had occurred in the period of August 31, 2016 through that date.

V. RELATED ORGANIZATIONS

The District at present does maintain an Educational Foundation (the "Foundation"). This entity was established as a not-for-profit entity to provide assistance and support for teachers and students to develop special programs and projects and other school district support activities. This entity is a "related organization" of the District as defined by *Governmental Accounting Standards Board Statement No. 61*. The members of the board of the Foundation are appointed by an outside taxpayer group; however the support for the District is material to the financial statements and has been included as a private purpose trust fund per the Schedule E Exhibits.

W. RELATED PARTY TRANSACTIONS

The District does not incur related party transactions with businesses owned or employers for various members of the board of trustees. Therefore, the District did not incur any material reportable related party transactions or balances as of and during the current year end.

X. FUND BALANCE / NET POSITION ADJUSTMENTS

During fiscal year 2016, the District did not make a prior period net position adjustment.

The District also did not make a fund balance adjustment during the current fiscal year.

	General Fund	Debt Service Fund	Capital Projects Fund	Total
Governmental Fund Balance:				
Increase (Decrease) Beginning of Year Fund Balance				
From Change in Liabilities	\$ -	\$ -	\$ -	\$ -
Total Fund Balance Adjustment	\$ -	\$ -	\$ -	\$ -
Government Wide Net Position:				
Increase (Decrease) Beg of Year Net Position:				
Prior Period Adjustment - None				\$ -
Total Net Position Adjustment				\$ -

Y. WORKERS COMPENSATION / PROPERTY & CASUALTY / UNEMPLOYMENT

Workers' Compensation Program

During the current year, the District met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Inter-local Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's workers' compensation program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Inter-local Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$1.5 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2014, the Fund carries a discounted reserve of \$0 for future development on reported claims and claims that have been incurred but not yet reported. For the current year, the Fund anticipates no additional liability to members beyond their contractual obligation for payment of contributions.

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

The District has selected the partially self-insured plan and the costs associated with this self-insurance plan are reported as inter-fund transactions to the extent of amounts actuarially determined. Accordingly, they are treated as operating revenues of the Internal Service Fund and operating expenditures of the General Fund. The liabilities of the plan include incurred but not reported claims. These liabilities reported in the funds at year end, are based on the requirements of Governmental Accounting Standards Board No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. These liabilities include an amount for claims that have been incurred but not reported.

Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Workers' compensation liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time were computed by an actuary and are reported at their present value using an expected future investment yield assumption.

Estimates of claims payable and of claims incurred, but not reported at August 31, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the Fund as they become due. Changes in the balances of claims liabilities during the past year are as follows:

	Year Ended August 31, 2015	Year Ended August 31, 2016
Unpaid claims, beginning of year	\$ 32,688	\$ 21,575
Incurred claims (including IBNR'S)	9,139	38,850
Claim Payments	(20,252)	(37,712)
Unpaid claims, end of year	\$ 21,575	\$ 22,713

Property / Casualty Program

During the current year ended, the District participated in the TASB Risk Management Fund's (the Fund's) Property Casualty Program with coverage for the following:

- 1) Crime,
- 2) General Liability,
- 3) Property and Band Floater,
- 4) Sexual Misconduct Endorsement, and
- 5) SP Legal Liability.

The fund was created and is operated under the provision of the Inter-local Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Inter-local Agreements that define the responsibilities of the parties.

The Fund purchase stop-loss coverage for protection against catastrophic and larger than anticipated claims for the Property Casualty Program. The terms and limits of the stop-loss program vary by line of coverage. The Fund used the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the current year ended, the Fund anticipates that the District has no additional liability beyond the contractual obligations for payment of contributions.

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

Unemployment Compensation Program

During the current year ended, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Inter-local Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's unemployment compensation program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Inter-local Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligations to the Texas Workforce Commission. Expenses are accrued each month until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop loss coverage for Unemployment Compensation pool members.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is accepted by the Fund's Board of Trustees in February of the following year. The Fund's audited financial statements as of August 31, 2014, are available at the TASB offices and have been filed with the Texas Department of Insurance in Austin.

Z. SCHOOL DISTRICT RETIREE HEALTH PLAN

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

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contributions rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55%. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the last three years, the State’s contributions to TRS-Care, the active member contributions, and the school District’s contributions are listed below. Respectively, these contributions equaled the required contributions each year.

Contribution Rates and Contribution Amounts						
	Member		District		State On-Behalf	
Year	Rate	Amount	Rate	Amount	Rate	Amount
2016	0.65%	\$ 76,982	0.55%	\$65,138	1.00%	\$ 118,433
2015	0.65%	\$ 75,622	0.55%	\$63,988	1.00%	\$ 116,342
2014	0.65%	\$ 73,232	0.55%	\$61,966	1.00%	\$ 112,665

REQUIRED SUPPLEMENTARY INFORMATION

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 6,719,200	\$ 6,889,000	\$ 7,013,914	\$ 124,914
5800	State Program Revenues	10,464,721	10,357,370	10,912,882	555,512
5900	Federal Program Revenues	150,000	311,000	313,630	2,630
5020	Total Revenues	17,333,921	17,557,370	18,240,426	683,056
EXPENDITURES:					
Current:					
0011	Instruction	9,476,470	9,476,470	9,430,555	45,915
0012	Instructional Resources and Media Services	241,519	221,519	218,370	3,149
0013	Curriculum and Instructional Staff Development	175,815	202,000	200,373	1,627
0021	Instructional Leadership	285,136	295,000	283,190	11,810
0023	School Leadership	1,350,435	1,380,435	1,381,960	(1,525)
0031	Guidance, Counseling and Evaluation Services	354,010	354,010	352,797	1,213
0033	Health Services	150,424	154,424	153,413	1,011
0034	Student (Pupil) Transportation	381,820	381,820	342,839	38,981
0036	Extracurricular Activities	1,002,442	1,022,442	1,016,590	5,852
0041	General Administration	805,763	805,763	781,177	24,586
0051	Facilities Maintenance and Operations	2,160,214	2,160,214	2,208,327	(48,113)
0052	Security and Monitoring Services	77,600	81,000	79,355	1,645
0053	Data Processing Services	330,134	448,934	441,781	7,153
0061	Community Services	77,446	77,446	73,163	4,283
Debt Service:					
0071	Principal on Long Term Debt	103,210	103,210	116,636	(13,426)
0072	Interest on Long Term Debt	22,483	22,483	22,479	4
0073	Bond Issuance Cost and Fees	1,000	1,000	550	450
Intergovernmental:					
0095	Payments to Juvenile Justice Alternative Ed. Prg.	50,000	15,000	10,880	4,120
0099	Other Intergovernmental Charges	288,000	288,000	276,507	11,493
6030	Total Expenditures	17,333,921	17,491,170	17,390,942	100,228
1100	Excess of Revenues Over Expenditures	-	66,200	849,484	783,284
OTHER FINANCING SOURCES (USES):					
7913	Capital Leases	-	118,800	118,764	(36)
8911	Transfers Out (Use)	-	(185,000)	(177,102)	7,898
7080	Total Other Financing Sources (Uses)	-	(66,200)	(58,338)	7,862
1200	Net Change in Fund Balances	-	-	791,146	791,146
0100	Fund Balance - September 1 (Beginning)	1,463,438	1,463,438	1,463,438	-
3000	Fund Balance - August 31 (Ending)	\$ 1,463,438	\$ 1,463,438	\$ 2,254,584	\$ 791,146

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

EXHIBIT G-2

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.0124074%	0.0084659%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 4,385,851	\$ 2,261,359
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	6,909,071	6,037,314
Total	<u>\$ 11,294,922</u>	<u>\$ 8,298,673</u>
District's Covered-Employee Payroll	\$ 11,634,174	\$ 11,266,513
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	37.70%	20.07%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.43%	83.25%

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

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

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

	<u>2016</u>	<u>2015</u>
Contractually Required Contribution	\$ 380,701	\$ 367,387
Contribution in Relation to the Contractually Required Contribution	(380,701)	(367,387)
Contribution Deficiency (Excess)	<u>\$ -0-</u>	<u>\$ -0-</u>
District's Covered-Employee Payroll	\$ 11,843,324	\$ 11,634,174
Contributions as a Percentage of Covered-Employee Payroll	3.21%	3.16%

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

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

**HILLSBORO INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED AUGUST 31, 2016**

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

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

Economic Assumptions

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

Mortality Assumptions

5. 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.
6. 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.
7. 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

8. 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.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
11. 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.
12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

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

**OTHER SUPPLEMENTARY INFORMATION –
COMBINING SCHEDULES**

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

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ -	\$ -	\$ 327,010
1240	Receivables from Other Governments	68,593	27,519	6,927	29,141
1290	Other Receivables	-	-	-	2,336
1000	Total Assets	<u>\$ 68,593</u>	<u>\$ 27,519</u>	<u>\$ 6,927</u>	<u>\$ 358,487</u>
LIABILITIES					
2110	Accounts Payable	\$ 421	\$ 1,959	\$ 1,904	\$ 34,616
2160	Accrued Wages Payable	32,681	16,388	-	-
2170	Due to Other Funds	32,331	7,575	5,023	-
2200	Accrued Expenditures	3,160	1,597	-	-
2000	Total Liabilities	<u>68,593</u>	<u>27,519</u>	<u>6,927</u>	<u>34,616</u>
DEFERRED INFLOWS OF RESOURCES					
2602	Deferred Inflow of Resources - Grants & Food Ser	-	-	-	6,825
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,825</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	317,046
3470	Capital Acquisition and Contractual Obligation	-	-	-	-
3490	Other Restricted Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>317,046</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 68,593</u>	<u>\$ 27,519</u>	<u>\$ 6,927</u>	<u>\$ 358,487</u>

242 Summer Feeding Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	270 ESEA VI, Pt B Rural & Low Income	289 LEP Summer Program	410 State Instructional Materials	429 PreKindergarten Grant
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,418	\$ -
-	1,174	9,970	7,581	268	1,894	-	6,391
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 1,174</u>	<u>\$ 9,970</u>	<u>\$ 7,581</u>	<u>\$ 268</u>	<u>\$ 1,894</u>	<u>\$ 4,418</u>	<u>\$ 6,391</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,100
-	-	4,182	727	-	-	-	-
-	1,174	5,384	6,784	268	1,894	-	4,291
-	-	404	70	-	-	-	-
<u>-</u>	<u>1,174</u>	<u>9,970</u>	<u>7,581</u>	<u>268</u>	<u>1,894</u>	<u>-</u>	<u>6,391</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	4,418	-
-	-	-	-	-	-	4,418	-
<u>\$ -</u>	<u>\$ 1,174</u>	<u>\$ 9,970</u>	<u>\$ 7,581</u>	<u>\$ 268</u>	<u>\$ 1,894</u>	<u>\$ 4,418</u>	<u>\$ 6,391</u>

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

Data Control Codes	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	699 Capital Project Fund	Total Nonmajor Governmental Funds	
ASSETS					
1110	Cash and Cash Equivalents	\$ 73,214	\$ 404,642	\$ 325,149	\$ 729,791
1240	Receivables from Other Governments	-	159,458	-	159,458
1290	Other Receivables	-	2,336	-	2,336
1000	Total Assets	<u>\$ 73,214</u>	<u>\$ 566,436</u>	<u>\$ 325,149</u>	<u>\$ 891,585</u>
LIABILITIES					
2110	Accounts Payable	\$ 12,880	\$ 53,880	\$ -	\$ 53,880
2160	Accrued Wages Payable	-	53,978	-	53,978
2170	Due to Other Funds	-	64,724	-	64,724
2200	Accrued Expenditures	-	5,231	-	5,231
2000	Total Liabilities	<u>12,880</u>	<u>177,813</u>	<u>-</u>	<u>177,813</u>
DEFERRED INFLOWS OF RESOURCES					
2602	Deferred Inflow of Resources - Grants & Food Ser	-	6,825	-	6,825
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>6,825</u>	<u>-</u>	<u>6,825</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	317,046	-	317,046
3470	Capital Acquisition and Contractual Obligation	-	-	325,149	325,149
3490	Other Restricted Fund Balance	60,334	64,752	-	64,752
3000	Total Fund Balances	<u>60,334</u>	<u>381,798</u>	<u>325,149</u>	<u>706,947</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 73,214</u>	<u>\$ 566,436</u>	<u>\$ 325,149</u>	<u>\$ 891,585</u>

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

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ 185,712
5800 State Program Revenues	-	-	-	5,630
5900 Federal Program Revenues	609,085	458,373	9,557	809,015
5020 Total Revenues	<u>609,085</u>	<u>458,373</u>	<u>9,557</u>	<u>1,000,357</u>
EXPENDITURES:				
Current:				
0011 Instruction	523,857	451,318	9,387	-
0013 Curriculum and Instructional Staff Development	85,228	4,139	170	-
0031 Guidance, Counseling and Evaluation Services	-	2,916	-	-
0035 Food Services	-	-	-	930,173
0036 Extracurricular Activities	-	-	-	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	-	-
6030 Total Expenditures	<u>609,085</u>	<u>458,373</u>	<u>9,557</u>	<u>930,173</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	70,184
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	-	-
1200 Net Change in Fund Balance	-	-	-	70,184
0100 Fund Balance - September 1 (Beginning)	-	-	-	246,862
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 317,046</u>

242 Summer Feeding Program	244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	263 Title III, A English Lang. Acquisition	270 ESEA VI, Pt B Rural & Low Income	289 LEP Summer Program	410 State Instructional Materials	429 PreKindergarten Grant
\$ 196	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	94,519	9,473
5,651	25,740	121,657	25,268	37,412	2,104	-	-
<u>5,847</u>	<u>25,740</u>	<u>121,657</u>	<u>25,268</u>	<u>37,412</u>	<u>2,104</u>	<u>94,519</u>	<u>9,473</u>
-	24,433	108,616	24,148	37,412	2,104	142,307	9,473
-	1,307	13,041	1,120	-	-	-	-
-	-	-	-	-	-	-	-
5,847	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>5,847</u>	<u>25,740</u>	<u>121,657</u>	<u>25,268</u>	<u>37,412</u>	<u>2,104</u>	<u>142,307</u>	<u>9,473</u>
-	-	-	-	-	-	(47,788)	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	(47,788)	-
-	-	-	-	-	-	52,206	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,418</u>	<u>\$ -</u>

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

Data Control Codes	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	699 Capital Project Fund	Total Nonmajor Governmental Funds	
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 158,252	\$ 344,160	\$ 325,149	\$ 669,309
5800	State Program Revenues	-	109,622	-	109,622
5900	Federal Program Revenues	-	2,103,862	-	2,103,862
5020	Total Revenues	<u>158,252</u>	<u>2,557,644</u>	<u>325,149</u>	<u>2,882,793</u>
EXPENDITURES:					
Current:					
0011	Instruction	-	1,333,055	-	1,333,055
0013	Curriculum and Instructional Staff Development	-	105,005	-	105,005
0031	Guidance, Counseling and Evaluation Services	-	2,916	-	2,916
0035	Food Services	-	936,020	-	936,020
0036	Extracurricular Activities	171,478	171,478	-	171,478
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	-	123,784	123,784
6030	Total Expenditures	<u>171,478</u>	<u>2,548,474</u>	<u>123,784</u>	<u>2,672,258</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(13,226)	9,170	201,365	210,535
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	-	123,784	123,784
1200	Net Change in Fund Balance	(13,226)	9,170	325,149	334,319
0100	Fund Balance - September 1 (Beginning)	<u>73,560</u>	<u>372,628</u>	<u>-</u>	<u>372,628</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 60,334</u>	<u>\$ 381,798</u>	<u>\$ 325,149</u>	<u>\$ 706,947</u>

HILLSBORO INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF NET POSITION
 INTERNAL SERVICE FUNDS
 AUGUST 31, 2016

	753 Self-Insured Insurance Fund	799 Day Care Internal Service Fund	Total Internal Service Funds
ASSETS			
Current Assets:			
Cash and Cash Equivalents	\$ 96,204	\$ 6,121	\$ 102,325
Total Assets	<u>96,204</u>	<u>6,121</u>	<u>102,325</u>
LIABILITIES			
Current Liabilities:			
Accounts Payable	5,935	-	5,935
Accrued Wages Payable	-	6,053	6,053
Accrued Expenses	22,713	68	22,781
Total Liabilities	<u>28,648</u>	<u>6,121</u>	<u>34,769</u>
NET POSITION			
Unrestricted Net Position	67,556	-	67,556
Total Net Position	<u>\$ 67,556</u>	<u>\$ -</u>	<u>\$ 67,556</u>

HILLSBORO INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2016

	753 Self-Insured Insurance Fund	799 Day Care Internal Service Fund	Total Internal Service Funds
OPERATING REVENUES:			
Local and Intermediate Sources	\$ 81,259	\$ 87,167	\$ 168,426
State Program Revenues	-	7,328	7,328
Total Operating Revenues	<u>81,259</u>	<u>94,495</u>	<u>175,754</u>
OPERATING EXPENSES:			
Payroll Costs	37,712	145,275	182,987
Supplies and Materials	-	2,538	2,538
Total Operating Expenses	<u>37,712</u>	<u>147,813</u>	<u>185,525</u>
Income (Loss) Before Transfers	43,547	(53,318)	(9,771)
Transfer In	-	53,318	53,318
Change in Net Position	43,547	-	43,547
Total Net Position - September 1 (Beginning)	<u>24,009</u>	<u>-</u>	<u>24,009</u>
Total Net Position August 31 (Ending)	<u>\$ 67,556</u>	<u>\$ -</u>	<u>\$ 67,556</u>

HILLSBORO INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF CASH FLOWS
 INTERNAL SERVICE FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2016

	753 Self-Insured Insurance Fund	799 Day Care Internal Service Fund	Total Internal Service Funds
<u>Cash Flows from Operating Activities:</u>			
Cash Received from User Charges	\$ -	\$ 7,328	\$ 7,328
Cash Received from Assessments - Other Funds	81,259	87,167	168,426
Cash Payments to Employees for Services	-	(144,640)	(144,640)
Cash Payments for Insurance Claims	(30,996)	-	(30,996)
Cash Payments for Suppliers	-	(2,538)	(2,538)
Net Cash Provided by (Used for) Operating Activities	<u>50,263</u>	<u>(52,683)</u>	<u>(2,420)</u>
<u>Cash Flows from Capital & Related Financing Activities:</u>			
Capital Contributed by Other Funds	-	53,318	53,318
Net Increase in Cash and Cash Equivalents	50,263	635	50,898
Cash and Cash Equivalents at Beginning of Year	45,941	5,486	51,427
Cash and Cash Equivalents at End of Year	<u>\$ 96,204</u>	<u>\$ 6,121</u>	<u>\$ 102,325</u>
<u>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used for) Operating Activities:</u>			
Operating Income (Loss):	\$ 43,547	\$ (53,318)	\$ (9,771)
Effect of Increases and Decreases in Current Assets and Liabilities:			
Increase (decrease) in Accounts Payable	6,716	635	7,351
Net Cash Provided by (Used for) Operating Activities	<u>\$ 50,263</u>	<u>\$ (52,683)</u>	<u>\$ (2,420)</u>
<u>Reconciliation of Total Cash and Cash Equivalents:</u>			
Cash and Cash Equivalents on Balance Sheet	\$ 96,204	\$ 6,121	\$ 102,325
Restricted - Cash and Cash Equivalents on	-	-	-
Total Cash and Cash Equivalents	<u>\$ 96,204</u>	<u>\$ 6,121</u>	<u>\$ 102,325</u>

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

	BALANCE SEPTEMBER 1 2015	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2016
STUDENT ACTIVITY ACCOUNT				
Assets:				
Cash and Temporary Investments	\$ 101,781	\$ 194,828	\$ 229,890	\$ 66,719
Liabilities:				
Accounts Payable	\$ 261	\$ 1,974	\$ 261	\$ 1,974
Due to Other Funds	36,519	-	36,519	-
Due to Student Groups	65,001	192,854	193,110	64,745
Total Liabilities	\$ 101,781	\$ 194,828	\$ 229,890	\$ 66,719
TOTAL AGENCY FUNDS				
Assets:				
Cash and Temporary Investments	\$ 101,781	\$ 194,828	\$ 229,890	\$ 66,719
Liabilities:				
Accounts Payable	\$ 261	\$ 1,974	\$ 261	\$ 1,974
Due to Other Funds	36,519	-	36,519	-
Due to Student Groups	65,001	192,854	193,110	64,745
Total Liabilities	\$ 101,781	\$ 194,828	\$ 229,890	\$ 66,719

HILLSBORO INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF NET POSITION
 PRIVATE PURPOSE TRUST FUNDS
 AUGUST 31, 2016

	816 Private Purpose Trust Fund	817 Rene Kemp Scholarship	829 Hillsboro ISD Education Foundation	Total Private Purpose Trust Funds
ASSETS				
Restricted Assets	\$ 38,773	\$ 18,882	\$ 197,036	\$ 254,691
Total Assets	<u>38,773</u>	<u>18,882</u>	<u>197,036</u>	<u>254,691</u>
NET POSITION				
Restricted for Scholarships	38,773	18,882	-	57,655
Restricted for Other Purposes	-	-	197,036	197,036
Total Net Position	<u>\$ 38,773</u>	<u>\$ 18,882</u>	<u>\$ 197,036</u>	<u>\$ 254,691</u>

HILLSBORO INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 PRIVATE PURPOSE TRUST FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2016

	816 Private Purpose Trust Fund	817 Rene Kemp Scholarship	829 Hillsboro ISD Education Foundation	Total Private Purpose Trust Funds
ADDITIONS:				
Local and Intermediate Sources	\$ 2,254	\$ 132	\$ 66,670	\$ 69,056
Total Additions	<u>2,254</u>	<u>132</u>	<u>66,670</u>	<u>69,056</u>
DEDUCTIONS:				
Professional and Contracted Services	-	1,000	3,000	4,000
Supplies and Materials	-	-	1,505	1,505
Other Operating Costs	-	-	57,621	57,621
Total Deductions	<u>-</u>	<u>1,000</u>	<u>62,126</u>	<u>63,126</u>
Change in Net Position	2,254	(868)	4,544	5,930
Total Net Position - September 1 (Beginning)	<u>36,519</u>	<u>19,750</u>	<u>192,492</u>	<u>248,761</u>
Total Net Position - August 31 (Ending)	<u>\$ 38,773</u>	<u>\$ 18,882</u>	<u>\$ 197,036</u>	<u>\$ 254,691</u>

REQUIRED TEA SCHEDULES

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

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2007 and prior years	Various	Various	\$ Various
2008	1.150000	0.260000	439,403,262
2009	1.150000	0.260000	489,535,150
2010	1.150000	0.260000	534,061,430
2011	1.150000	0.260000	524,129,050
2012	1.150000	0.260000	524,014,272
2013	1.150000	0.260000	504,580,551
2014	1.150000	0.260000	521,587,966
2015	1.150000	0.260000	557,301,264
2016 (School year under audit)	1.150000	0.260000	570,749,971
1000 TOTALS			

(10) Beginning Balance 9/1/2015	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2016
\$ 102,369	\$ -	\$ 1,234	\$ 263	\$ (5,034)	\$ 95,838
19,665	-	745	169	(696)	18,055
21,906	-	989	224	(518)	20,175
27,302	-	2,594	587	(565)	23,556
31,530	-	3,310	748	43	27,515
42,405	-	8,170	1,847	711	33,099
50,946	-	12,505	2,827	925	36,539
85,621	-	26,079	5,896	(1,412)	52,234
182,509	-	70,422	15,922	(13,707)	82,458
-	8,047,575	6,386,468	1,464,489	-	196,618
<u>\$ 564,253</u>	<u>\$ 8,047,575</u>	<u>\$ 6,512,516</u>	<u>\$ 1,492,972</u>	<u>\$ (20,253)</u>	<u>\$ 586,087</u>

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 246,984	\$ 185,000	\$ 185,712	\$ 712
5800	State Program Revenues	5,724	5,630	5,630	-
5900	Federal Program Revenues	966,094	875,000	809,015	(65,985)
5020	Total Revenues	1,218,802	1,065,630	1,000,357	(65,273)
EXPENDITURES:					
0035	Food Services	1,218,802	1,065,630	930,173	135,457
6030	Total Expenditures	1,218,802	1,065,630	930,173	135,457
1200	Net Change in Fund Balances	-	-	70,184	70,184
0100	Fund Balance - September 1 (Beginning)	246,862	246,863	246,862	(1)
3000	Fund Balance - August 31 (Ending)	\$ 246,862	\$ 246,863	\$ 317,046	\$ 70,183

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 1,498,748	\$ 1,500,000	\$ 1,502,858	\$ 2,858
5800	State Program Revenues	187,568	100,000	51,162	(48,838)
5020	Total Revenues	1,686,316	1,600,000	1,554,020	(45,980)
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	1,210,666	1,210,666	1,270,001	(59,335)
0072	Interest on Long Term Debt	473,650	387,334	325,678	61,656
0073	Bond Issuance Cost and Fees	2,000	2,000	750	1,250
6030	Total Expenditures	1,686,316	1,600,000	1,596,429	3,571
1200	Net Change in Fund Balances	-	-	(42,409)	(42,409)
0100	Fund Balance - September 1 (Beginning)	494,608	494,608	494,608	-
3000	Fund Balance - August 31 (Ending)	\$ 494,608	\$ 494,608	\$ 452,199	\$ (42,409)

**REPORTS ON COMPLIANCE, INTERNAL CONTROLS AND
FEDERAL AWARDS**

James E. Rodgers and Company, P.C.

Certified Public Accountants

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Richard E. Rodgers CPA • Gerald L. Rodgers CPA

December 12, 2016

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

**To the Board of Trustees
Hillsboro Independent School District
Hillsboro, Texas 76645**

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 Hillsboro Independent School District, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise Hillsboro Independent School District's basic financial statements, and have issued our report thereon dated December 12, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hillsboro 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 Hillsboro Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Hillsboro 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.

James E. Rodgers and Company, P.C.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Hillsboro 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of finding and questioned costs as item 2016-001.

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.

Respectfully submitted,

James E. Rodgers and Company

James E. Rodgers and Company, P.C.

James E. Rodgers and Company, P.C.

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Richard E. Rodgers CPA • Gerald L. Rodgers CPA

December 12, 2016

Independent Auditor's Report on Compliance for each Major Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Trustees
Hillsboro Independent School District
Hillsboro, Texas 76645

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Hillsboro 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 Hillsboro 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 Hillsboro Independent School District's compliance.

Opinion on Each Major Federal Program

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

James E. Rodgers and Company, P.C.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2016-001. Our opinion on each major federal program is not modified with respect to these matters.

Hillsboro Independent School District's response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Hillsboro Independent School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of Hillsboro 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 Hillsboro Independent School District 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 Hillsboro Independent School District's internal control over compliance.

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

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

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

Respectfully submitted,



James E. Rodgers and Company, P.C.

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

I. Summary of the Auditor's Results:

1.	Type of report issued on the financial statements:	Unmodified opinion
2 (a).	Significant deficiencies in internal control:	None
	(b). Significant deficiencies that were material weaknesses:	None
3.	Noncompliance, which is material to the financial statements:	Yes
4 (a).	Significant deficiencies in internal control over major programs	None
	(b). Significant deficiencies that were material weaknesses	None
5.	Type of report issued on compliance with major programs	Modified opinion
6.	Audit findings that the auditor is required to report under Section .510(a). These include the following:	
	(a). Significant deficiencies in internal control over major programs.	None
	(b). Material noncompliance with the provisions of laws, regulations, contracts, or grant agreements related to a major program.	Yes
	(c). For a type of compliance requirement for a major program, known questioned costs when likely questioned costs are greater than \$25,000.	None
	(d). Known questioned costs greater than \$25,000 for a federal program that is not audited as a major program.	None
	(e). The circumstances concerning why the auditor's report on compliance for major programs is other than an unmodified opinion, unless such circumstances are otherwise reported as audit findings in the schedule of findings and questioned costs for federal awards.	Not applicable
	(f). Known fraud affecting a federal award, unless such fraud is otherwise reported as an audit finding in the schedule of findings and questioned costs for Federal awards.	None
	(g). Instances where audit follow-up procedures disclosed that the summary schedule of prior audit findings prepared by the auditee materially misrepresents the status of any prior audit finding.	None
7.	Identification of major programs:	
	• Child Nutrition Cluster:	
	School Breakfast Program (CFDA 10.553)	
	National School Lunch Program-Cash and Non-Cash Assistance (CFDA 10.555)	
	Summer Feeding Program-Cash Assistance (CFDA 10.559)	
8.	Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
9.	District qualified as a low-risk auditee	Yes

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

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards (GAGAS)*.

Finding 2016-001:

- a. Condition:** The District incurred an excessive working capital or cash balance for food service operations of \$60,043 as of August 31, 2016.
- b. Criteria:** Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles , and Audit Requirements for Federal Awards (Uniform Guidance) provides that working capital for federally funded food service operations at fiscal year-end should not exceed the average three months of prior year food service expenditures.
- c. Cause:** Cash balance at August 31, 2016 exceeded the three month average prior year expenditures by \$60,043.
- d. Effect:** Excess working capital or cash balance exceeded the allowable amount by \$60,043.
- e. Recommendation:** District is reviewing food service capital expenditure needs and indirect cost expenditures for proper allocations (i.e. cafeteria utilities, etc.) to reduce the cash balance below the excessive level.
- f. District Response:** The District will implement the recommendations immediately in order to reduce the excess cash position by August 2017.

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in 6(a) – 6(g) above.

The District incurred an excessive working capital or cash balance for food service operations of \$60,043 as of August 31, 2016. There were **no additional audit findings or questioned costs for federal awards** that are required to be reported.

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

Finding 2015-001: The District did not have a prior year audit finding.

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

The name of the contact person responsible for corrective action:

Dale Snyder, Finance Director

District Phone Number: 254-582-8585.

The corrective action for Finding 2016-001:

Finding of excess working capital or cash balance was identified as of August 31, 2016, in the amount of \$60,043. The District is reviewing food service operations for the 2016-2017 school year to include all overhead operating costs including utilities, insurance, etc. that have not been included in food service operations in prior or the current year. Furthermore, the District is reviewing a list of capital equipment for the food service operation that was compiled during the current year; however, purchases had not been implemented as of August 31, 2016.

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

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
ENTER NAME OF DEPARTMENT			
<u>Direct Programs</u>			
LEP Summer Program	FD289	69551502	\$ 2,104
Total Direct Programs			\$ 2,104
TOTAL ENTER NAME OF DEPARTMENT			\$ 2,104
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	16610101109904	\$ 543,024
ESEA, Title I, Part A - Improving Basic Programs	84.010A	17610101109904	66,061
Total CFDA Number 84.010A			609,085
*IDEA - Part B, Formula	84.027	166600011099046000	458,373
*IDEA - Part B, Preschool	84.173	166610011099046000	9,557
Total Special Education Cluster (IDEA)			467,930
Career and Technical - Basic Grant	84.048	16420006109904	25,740
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	16696001109904	37,412
Title III, Part A - English Language Acquisition	84.365A	16671001109904	25,268
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	16694501109904	111,687
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	17694501109904	9,970
Total CFDA Number 84.367A			121,657
Total Passed Through State Department of Education			\$ 1,287,092
TOTAL U.S. DEPARTMENT OF EDUCATION			\$ 1,287,092
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401601	\$ 163,140
*National School Lunch Program - Cash Assistance	10.555	71301601	604,881
*National School Lunch Prog. - Non-Cash Assistance	10.555	71301601	40,994
Total CFDA Number 10.555			645,875
*Summer Feeding Program - Cash Assistance	10.559	71401601	5,651
Total Child Nutrition Cluster			814,666
Total Passed Through the State Department of Agriculture			\$ 814,666
TOTAL U.S. DEPARTMENT OF AGRICULTURE			\$ 814,666
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 2,103,862

*Clustered Programs

Federal Non-Grant Funding From SHARS was \$313,630 during the current year.
Amounts paid during the current year to subrecipients was \$0.

HILLSBORO INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2016

1. For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types and Expendable Trust Funds are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund that is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.
3. The modified accrual basis of accounting is used for the Governmental Fund types, the Expendable Trust Funds, and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.
4. Federal grant funds are recorded as earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.
5. The period of performance for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, Compliance Statement.