

**HOOKS INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED**

AUGUST 31, 2016

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

TABLE OF CONTENTS

<u>Exhibit</u>	<u>Page</u>
CERTIFICATE OF BOARD	1
Independent Auditors' Report	2-4
Management's Discussion and Analysis	5-11
<u>Basic Financial Statements</u>	
Government Wide Statements:	
A-1 Statement of Net Position	12
B-1 Statement of Activities	13
Governmental Fund Financial Statements:	
C-1 Balance Sheet	14
C-2 Reconciliation for C-1	15
C-3 Statement of Revenues, Expenditures, and Changes in Fund Balance	16
C-4 Reconciliation for C-3	17
Fiduciary Fund Financial Statements:	
E-1 Statement of Fiduciary Net Position	18
E-2 Statement of Changes in Fiduciary Net Position	19
Notes to the Financial Statements	20-44
<u>Required Supplementary Information</u>	
G-1 Budgetary Comparison Schedule - General Fund	45
G-6 Schedule of the District's Proportionate Share of the Net Pension Liability (TRS)	46
G-7 Schedule of District Contributions to TRS	47
Note to Required Supplementary Information	48
<u>Combining and Other Schedules</u>	
Nonmajor Governmental Funds:	
H-1 Combining Balance Sheet	49-50
H-2 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	51-52
<u>Required TEA Schedules</u>	
J-1 Schedule of Delinquent Taxes	53-54
J-2 Budgetary Comparison Schedule – Food Service Fund	55
J-3 Budgetary Comparison Schedule - Debt Service Fund	56
<u>Reports on Compliance, Internal Control, and Federal Awards</u>	
Report on Internal Control Over Financial Reporting and Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	
	57-58
Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance	
	59-60
Schedule of Findings and Questioned Costs	61
Schedule of Status of Prior Findings	62
Corrective Action Plan	63
K-1 Schedule of Expenditures of Federal Awards	64
Notes to Schedule of Expenditures of Federal Awards	65

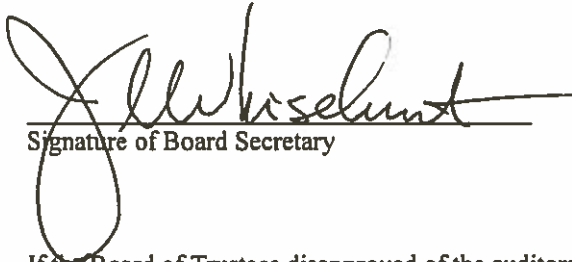
CERTIFICATE OF BOARD

Hooks Independent School District
Name of School District

Bowie
County

019-902
Co.-Dist. Number

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


Signature of Board Secretary


Signature of Board President

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

**UNQUALIFIED OPINION ON BASIC FINANCIAL STATEMENTS
ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER
SUPPLEMENTARY INFORMATION INCLUDING THE
SUPPLEMENTARY SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Independent Auditor's Report

Board of Trustees
Hooks Independent School District
100 E. 5th Street
Hooks, TX 75561

Members of the Board:

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 Hooks 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.

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5-11, budgetary comparison information on page 45, schedule of the District's proportionate share of the net pension liability (TRS) on page 46, and schedule of District contributions to TRS on page 47 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 Hooks Independent School District's basic financial statements. The combining financial statements 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 financial statements and 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 financial statements and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 through J-3. 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 7, 2016, on our consideration of the Hooks 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 the Hooks Independent School District's internal control over financial reporting and compliance.

Wilf & Henderson, P.C.

WILF & HENDERSON, P.C.
Certified Public Accountants
Texarkana, Texas

December 7, 2016

BASIC FINANCIAL STATEMENTS

HOOKS INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Hooks 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 our transmittal letter, the independent auditor's report, and the District's Basic Financial Statements.

FINANCIAL HIGHLIGHTS

The assets of the District exceeded its liabilities at the close of the most recent period by \$10,507,019 (net position). Of this amount, \$1,303,551 (unrestricted net position) may be used to meet the District's ongoing obligations.

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,289,612. The General Fund reported a fund balance this year of \$2,219,725.

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

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

An analysis of the District's overall financial condition and operations is included in this report. 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 and grants provided by the U.S. Department of Education to assist children from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

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

In the Statement of Net Position and the Statement of Activities, we present the following kind of activity:

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District has only governmental type funds.

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

The District as Trustee

Reporting the District's Fiduciary Responsibilities

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

**Table I
Hooks Independent School District
NET POSITION**

	Governmental Activities 2016	Governmental Activities 2015	Total % Change
Current and other assets	\$ 2,812,043	\$ 3,079,099	-8.67%
Capital assets	16,745,252	17,236,659	-2.85%
Total Assets	<u>19,557,295</u>	<u>20,315,758</u>	<u>-3.73%</u>
Deferred outflows of resources	<u>1,435,079</u>	<u>174,793</u>	<u>721.02%</u>
Other liabilities	337,800	598,253	-43.54%
Long term liabilities	7,893,690	8,019,964	-1.57%
TRIS net pension liability	2,097,802	804,787	160.67%
Total Liabilities	<u>10,329,292</u>	<u>9,423,004</u>	<u>9.62%</u>
Deferred inflow of resources	<u>156,063</u>	<u>246,187</u>	<u>-36.61%</u>
Net Position:			
Net investment in capital assets	9,117,710	9,272,423	-1.67%
Restricted	85,758	49,978	71.59%
Unrestricted	<u>1,303,551</u>	<u>1,498,959</u>	<u>-13.04%</u>
Total Net Position	<u>\$ 10,507,019</u>	<u>\$ 10,821,360</u>	<u>-2.90%</u>

Net position of the District's governmental activities decreased from \$10,821,360 to \$10,507,019. Unrestricted net assets – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirement was \$1,303,551 at August 31, 2016.

The total net change in fund balance for all governmental funds was an increase of \$4,217 for the current year. Funds were used to pay for capital outlay of \$80,080, bond payments of \$410,000, a decrease due to the implementation of GASB 68 of (\$150,565), and a decrease of (\$86,586) in various other items. Depreciation expense of (\$571,487) reduced net position. The net effect of these transactions was a decrease in net position of (\$314,341).

Table II
Hooks Independent School District
CHANGES IN NET POSITION

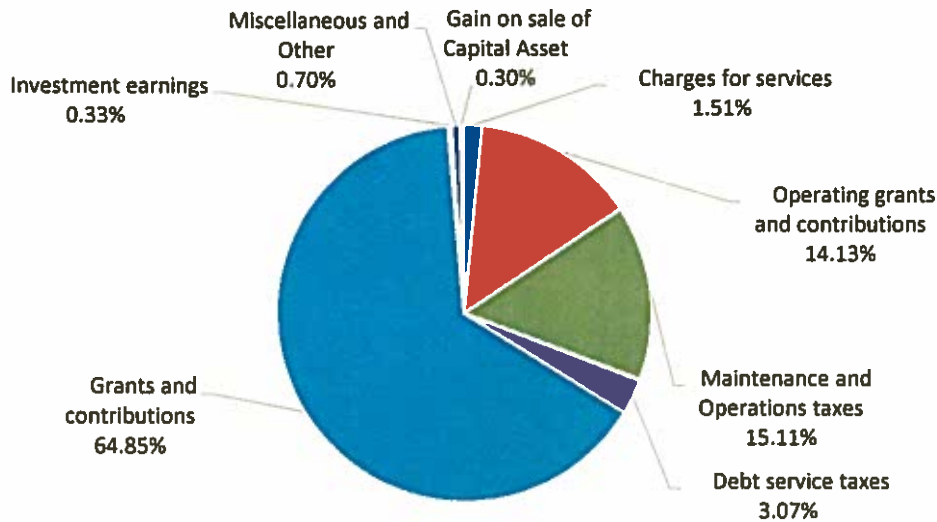
	Governmental Activities 2016	Governmental Activities 2015	Total % Change
Revenues:			
Program Revenues:			
Charges for services	\$ 162,992	\$ 216,201	-24.61%
Operating grants and contributions	1,528,232	1,493,068	2.36%
General Revenues:			
Maintenance and operations taxes	1,634,307	1,698,010	-3.75%
Debt service taxes	331,447	346,214	-4.27%
Grants and contributions	7,011,748	6,331,401	10.75%
Investment earnings	35,943	22,859	57.24%
Miscellaneous and other	75,783	145,247	-47.82%
Gain on sale of capital asset	32,629	-	100.00%
Total Revenues	10,813,081	10,253,000	5.46%
Expenses:			
Instruction, curriculum and media services	5,879,686	5,803,409	1.31%
Instructional and school leadership	1,008,269	950,156	6.12%
Student support services	491,502	459,242	7.02%
Child nutrition	424,246	381,229	11.28%
Extracurricular activities	541,000	529,706	2.13%
General administration	584,672	531,642	9.97%
Plant maintenance and data processing	1,307,875	1,270,333	2.96%
Security and monitoring services	45,221	48,024	-5.84%
Community services	1,415	805	75.78%
Debt service	354,794	275,975	28.56%
Payments to fiscal agent	462,448	393,795	17.43%
Other intergovernmental charges	26,294	27,436	-4.16%
Total Expenses	11,127,422	10,671,752	4.27%
Increase (Decrease) in Net Position	(314,341)	(418,752)	-24.93%
Net Position - Beginning of Year	10,821,360	11,240,112	-3.73%
Net Position - End of Year	\$ 10,507,019	\$ 10,821,360	-2.90%

The District's total revenues increased 5.46% from \$10,253,000 to \$10,813,081. General revenues grants and contributions increased \$680,347 due to an increase in average daily attendance of 13 and changes in funding formulas. Property taxes were reduced due to an additional \$10,000 homestead exemption approved by voters November, 2015. Program revenues charges for services decreased because no distribution from the fiscal agent of a shared services arrangement was received in 2015-16. General revenues miscellaneous and other went down due to reductions in donations and insurance recovery.

Expenses were up \$455,670 from the previous year. There was no large increase in any one particular area of expense. Most categories increased due to rising personnel expenses and overall costs of operation. The debt service expenses increased due to the 2016 advanced bond refunding.

The cost of all governmental activities this year was \$11,127,422. However, as shown in the Statement of Activities, the amount that our taxpayers ultimately financed for these activities through District taxes was only \$1,965,754 because some of the costs were paid by those who directly benefited from the program (\$162,992) or by other governments and organizations that subsidized certain programs with grants and contributions (\$1,528,232) or by state equalization funding (\$7,011,748).

Revenues by Source-Governmental Activities



DISTRICT'S FUNDS

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

Governmental funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of the District's net resources available for spending at the end of a fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,289,612, an increase of \$4,217. Approximately 53 percent of the combined ending fund balance (\$1,219,725) constitutes *unassigned fund balance*. The remainder of fund balance is restricted, committed or assigned to indicate that it is not available for new spending because it has already been set aside 1) restricted to pay debt service (\$39,566), 2) restricted for food service (\$30,321), and 3) other assigned construction (\$1,000,000).

The General Fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,219,725 while the total fund balance was \$2,219,725. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to the total fund expenditures. Unassigned fund balance represents 14 percent of the total general fund expenditures, while total fund balance represents 26 percent of that same amount.

- ❖ The fund balance of the District's General Fund decreased by (\$35,899) during the current fiscal year.

Key factors related to this change are as follows:

- ❖ The District adopted an original deficit budget of (\$56,443).
- ❖ Total revenues increased approximately \$205,000 from the prior year. Reductions in local revenue from property taxes, donations, insurance recovery, and distribution from the fiscal agent of a shared service arrangement of approximately \$190,000 were offset by an increase in state funding of approximately \$395,000.

- ❖ The District spent \$78,080 on capital outlay and received a donation of \$2,000 toward equipment for total capital outlay additions of \$80,080 during the year. The vocational agriculture department purchased a truck at a cost of \$44,486 and materials to construct a show barn at a cost of \$10,576. Sewer plant improvements at the Junior High campus were purchased at a cost of \$10,200. The remaining expenditures were for various items of equipment.
- ❖ In the Fall of 2015, District maintenance personnel discovered a problem with the roof at the Junior High campus gymnasium. The roof was constructed in 2009 as one of the projects funded with the 2008 bond issue proceeds. The District spent \$43,540 on shoring the roof, \$13,464 on engineering fees to determine how to repair it, and \$6,182 on attorney fees for pending litigation against the parties who originally constructed the roof. Total expenditures were \$63,186 during 2015-2016.
- ❖ Normal operating expenditures were down approximately \$155,000 from the previous year. The majority of the decrease was in the area of instruction for reduced personnel costs through attrition. There was no transfer to the Debt Service fund necessary in 2015-2016. The District would have had an excess of revenues over expenditures of approximately \$105,000 had it not been for capital outlay and expenditures related to the Junior High gymnasium roof.

The Debt Service Fund has a total fund balance of \$39,566 all of which is reserved for the payment of debt. The net increase in fund balance during the period in the debt service fund was \$36,128.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District recommended and the Board approved revisions to budget appropriations and estimated revenues as necessary.

The revision to estimated state revenue was a total increase of \$200,000. Foundation funding increased \$140,000 because of a gain in average daily attendance and funding formulas. On-behalf teacher retirement state revenue increased \$60,000.

The most significant increases to appropriations were \$50,000 in instruction for personnel costs, \$85,000 in extracurricular activities for personnel costs and bus expenditures, \$65,000 in facilities maintenance and operations for personnel costs and Junior High gym fees and \$45,000 in payments to fiscal agent for additional costs of special education cooperative.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the District had \$16,745,252 (net of accumulated depreciation) invested in a broad range of capital assets, including facilities and equipment for instruction, athletics, administration, and maintenance. This amount represents a net decrease of \$491,407, or 3 percent, below last year. Major capital outlay additions were a new agriculture truck and agriculture barn at costs of \$44,686 and \$10,576, respectively, and sewer plant improvements at the Junior High campus of \$10,200. Total additions of \$80,080 less depreciation of \$571,487 make up the decrease. More detailed information about the District's capital assets is presented in Note H to the financial statements.

Debt

A bond issue of \$4,000,000 was sold in 2000 to renovate the high school. In September of 2002, the District issued bonds in the amount of \$3,500,000 to renovate elementary and junior high classrooms. In October, 2008, the District issued bonds in the amount of \$3,800,000 for a new vocational complex at the high school and other renovations at the junior high and high school. In May, 2010, the District issued \$3,035,000 in refunding bonds to redeem in full the 2000 series bonds. In February, 2012, the District issued \$2,635,000 in refunding bonds to redeem in full the 2002 series bonds. In March, 2016, the District issued \$4,760,000 in advanced refunding bonds to partially redeem the 2008 and 2010 bond issues. The three advanced refunding issues will reduce total debt service payments over the remaining lives of the bonds by approximately \$1,726,926. The state and the District will share in these savings. At year-end the District had \$7,255,000 in bonds and notes outstanding versus \$7,815,000 last year. State instructional facilities allotment funds will pay approximately 54% of the annual bond payments for the life of the bonds. The remainder will be paid by a debt service tax levy.

Other obligations include accrued leave. More detailed information about the District's long-term liabilities is presented in Note I, J and K to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

- The unemployment rate for the region is 4.7 percent while the state and national rates are 4.7 and 4.6 percent, respectively.
- Appraised value used for the 2016-2017 budget preparation was up \$7,451, 000 or 5% from the previous year.
- The 2016 proposed tax rates for 2016-2017 were maintenance and operations \$1.17 per \$100 assessed value the same as the prior year and debt service \$.23 per \$100 assessed value which is \$.01 less than the previous year.
- The District's 2015-2016 refined average daily attendance was 828. The 2016-2017 state foundation revenue budget was calculated based upon the same ADA as the prior year.

These indicators were taken into account when adopting the General Fund budget for 2016-2017. Amounts available for appropriation in the General Fund budget are \$8.518 million, down \$62,000 from actual revenues of the previous year.

Expenditures for the General Fund were budgeted at \$8.513 million, a decrease of \$135,000 from actual expenditures for 2016. Instructional personnel costs were reduced mainly through attrition. The budget included capital outlay items of \$100,000 for Junior High gymnasium roof improvements, \$20,000 to complete the agriculture show barn, \$85,000 for fiber needed for internet connection and \$16,000 for a vehicle.

If these estimates are realized, the District's budgetary General Fund balance is expected to increase \$5,152 by the close of 2017.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Hooks Independent School District, 100 E. 5th Street, Hooks, Texas 75561.

HOOKS 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	\$ 2,303,275
1220 Property Taxes Receivable (Delinquent)	387,016
1230 Allowance for Uncollectible Taxes	(197,151)
1240 Due from Other Governments	318,903
Capital Assets:	
1510 Land	375,420
1520 Buildings and Improvements, Net	15,959,104
1530 Furniture and Equipment, Net	410,728
1000 Total Assets	19,557,295
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	219,888
1705 Deferred Outflow Related to TRS	1,215,191
1700 Total Deferred Outflows of Resources	1,435,079
LIABILITIES	
2140 Accrued Interest Payable	5,234
2160 Accrued Wages Payable	321,599
2180 Due to Other Governments	10,967
Noncurrent Liabilities	
2501 Due Within One Year	425,000
2502 Due in More Than One Year	7,468,690
2540 Net Pension Liability (District's Share)	2,097,802
2000 Total Liabilities	10,329,292
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	156,063
2600 Total Deferred Inflows of Resources	156,063
NET POSITION	
3200 Net Investment in Capital Assets	9,117,710
3820 Restricted for Federal and State Programs	30,321
3850 Restricted for Debt Service	55,437
3900 Unrestricted	1,303,551
3000 Total Net Position	\$ 10,507,019

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

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

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6 Primary Gov. Governmental Activities
		3 Charges for Services	4 Operating Grants and Contributions	
	Expenses			Net (Expense) Revenue and Changes in Net Position
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 5,671,737	\$ 38,664	\$ 703,707	\$ (4,929,366)
12 Instructional Resources and Media Services	102,169	-	12,570	(89,599)
13 Curriculum and Staff Development	105,780	-	3,560	(102,220)
21 Instructional Leadership	251,210	-	182,789	(68,421)
23 School Leadership	757,059	-	65,921	(691,138)
31 Guidance, Counseling and Evaluation Services	322,174	-	15,492	(306,682)
33 Health Services	101,940	-	5,867	(96,073)
34 Student (Pupil) Transportation	67,388	-	35,743	(31,645)
35 Food Services	424,246	94,015	300,777	(29,454)
36 Extracurricular Activities	541,000	30,313	11,994	(498,693)
41 General Administration	584,672	-	169,306	(415,366)
51 Facilities Maintenance and Operations	1,134,768	-	10,970	(1,123,798)
52 Security and Monitoring Services	45,221	-	-	(45,221)
53 Data Processing Services	173,107	-	9,536	(163,571)
61 Community Services	1,415	-	-	(1,415)
72 Debt Service - Interest on Long Term Debt	250,990	-	-	(250,990)
73 Debt Service - Bond Issuance Cost and Fees	103,804	-	-	(103,804)
93 Payments related to Shared Services Arrangements	462,448	-	-	(462,448)
99 Other Intergovernmental Charges	26,294	-	-	(26,294)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 11,127,422	\$ 162,992	\$ 1,528,232	(9,436,198)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	1,634,307
DT	Property Taxes, Levied for Debt Service	331,447
GC	Grants and Contributions not Restricted	7,011,748
IE	Investment Earnings	35,943
MI	Miscellaneous Local and Intermediate Revenue	75,783
S1	Gain on Sale of Capital Asset	32,629
TR	Total General Revenues and Special Items	9,121,857
CN	Change in Net Position	(314,341)
NB	Net Position - Beginning	10,821,360
NE	Net Position--Ending	\$ 10,507,019

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

HOOKS 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	\$ 2,238,391	\$ 36,181	\$ 28,703	\$ 2,303,275
1220 Property Taxes - Delinquent	338,895	48,121	-	387,016
1230 Allowance for Uncollectible Taxes (Credit)	(170,135)	(27,016)	-	(197,151)
1240 Receivables from Other Governments	290,213	3,385	25,305	318,903
1000 Total Assets	<u>\$ 2,697,364</u>	<u>\$ 60,671</u>	<u>\$ 54,008</u>	<u>\$ 2,812,043</u>
LIABILITIES				
2160 Accrued Wages Payable	\$ 297,912	\$ -	\$ 23,687	\$ 321,599
2180 Due to Other Governments	10,967	-	-	10,967
2000 Total Liabilities	<u>308,879</u>	<u>-</u>	<u>23,687</u>	<u>332,566</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	168,760	21,105	-	189,865
2600 Total Deferred Inflows of Resources	<u>168,760</u>	<u>21,105</u>	<u>-</u>	<u>189,865</u>
FUND BALANCES				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	30,321	30,321
3480 Retirement of Long-Term Debt	-	39,566	-	39,566
Assigned Fund Balance:				
3550 Construction	1,000,000	-	-	1,000,000
3600 Unassigned Fund Balance	1,219,725	-	-	1,219,725
3000 Total Fund Balances	<u>2,219,725</u>	<u>39,566</u>	<u>30,321</u>	<u>2,289,612</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 2,697,364</u>	<u>\$ 60,671</u>	<u>\$ 54,008</u>	<u>\$ 2,812,043</u>

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

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

Total Fund Balances - Governmental Funds	\$	2,289,612
1 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 \$25,357,948 and the accumulated depreciation was (\$8,121,289). 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. At the beginning of the year, these long-term liabilities totaled (\$8,019,964.) The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		9,216,695
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2016 capital outlays and debt principal payments is to increase net position.		490,080
3 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 (\$2,097,802), a Deferred Resource Inflow related to TRS in the amount of (\$156,063) and a Deferred Resource Outflow related to TRS in the amount of \$1,215,191. This amounted to a decrease in Net Position in the amount of (\$1,038,674).		(1,038,674)
4 The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(571,487)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		120,793
19 Net Position of Governmental Activities	\$	10,507,019

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

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

EXHIBIT C-3

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 1,798,364	\$ 358,003	\$ 94,015	\$ 2,250,382
5800 State Program Revenues	6,759,955	370,703	103,617	7,234,275
5900 Federal Program Revenues	21,887	-	1,054,546	1,076,433
5020 Total Revenues	<u>8,580,206</u>	<u>728,706</u>	<u>1,252,178</u>	<u>10,561,090</u>
EXPENDITURES:				
Current:				
0011 Instruction	4,714,564	-	445,047	5,159,611
0012 Instructional Resources and Media Services	86,941	-	8,000	94,941
0013 Curriculum and Instructional Staff Development	96,135	-	1,367	97,502
0021 Instructional Leadership	44,763	-	180,596	225,359
0023 School Leadership	647,666	-	30,158	677,824
0031 Guidance, Counseling and Evaluation Services	288,752	-	-	288,752
0033 Health Services	91,479	-	-	91,479
0034 Student (Pupil) Transportation	26,849	-	35,064	61,913
0035 Food Services	-	-	390,804	390,804
0036 Extracurricular Activities	506,496	-	-	506,496
0041 General Administration	375,117	-	155,469	530,586
0051 Facilities Maintenance and Operations	1,060,908	-	1,571	1,062,479
0052 Security and Monitoring Services	42,626	-	-	42,626
0053 Data Processing Services	155,586	-	114	155,700
0061 Community Services	1,334	-	-	1,334
Debt Service:				
0071 Principal on Long Term Debt	-	410,000	-	410,000
0072 Interest on Long Term Debt	-	282,567	-	282,567
0073 Bond Issuance Cost and Fees	-	103,804	-	103,804
Capital Outlay:				
0081 Facilities Acquisition and Construction	20,776	-	-	20,776
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	462,448	-	-	462,448
0099 Other Intergovernmental Charges	26,294	-	-	26,294
6030 Total Expenditures	<u>8,648,734</u>	<u>796,371</u>	<u>1,248,190</u>	<u>10,693,295</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(68,528)</u>	<u>(67,665)</u>	<u>3,988</u>	<u>(132,205)</u>
OTHER FINANCING SOURCES (USES):				
7911 Capital Related Debt Issued (Regular Bonds)	-	4,760,000	-	4,760,000
7912 Sale of Real and Personal Property	32,629	-	-	32,629
7915 Transfers In	185,322	-	-	185,322
7916 Premium or Discount on Issuance of Bonds	-	543,597	-	543,597
8911 Transfers Out (Use)	(185,322)	-	-	(185,322)
8949 Other (Uses)	-	(5,199,804)	-	(5,199,804)
7080 Total Other Financing Sources (Uses)	<u>32,629</u>	<u>103,793</u>	<u>-</u>	<u>136,422</u>
1200 Net Change in Fund Balances	(35,899)	36,128	3,988	4,217
0100 Fund Balance - September 1 (Beginning)	<u>2,255,624</u>	<u>3,438</u>	<u>26,333</u>	<u>2,285,395</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 2,219,725</u>	<u>\$ 39,566</u>	<u>\$ 30,321</u>	<u>\$ 2,289,612</u>

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

HOOKS 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	\$	4,217
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2016 capital outlays and debt principal payments is to increase net position.		490,080
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.		(571,487)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		(86,586)
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2015 caused the change in the ending net position to increase in the amount of \$161,529. Contributions made before the measurement date and during the previous FY were also expended and recorded as a reduction in the net pension liability for the district. This caused a increase in the change in net position in the amount of (\$98,107). The District recorded their proportionate share of the pension expense during the measurement period as part of the net pension liability. The net position expense decreased the change in net position by (\$213,987). The impact of all of these is to decrease the change in net position by (\$150,565).		(150,565)
Change in Net Position of Governmental Activities	\$	(314,341)

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

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

	Private Purpose Trust Fund	Agency Fund
ASSETS		
Cash and Cash Equivalents	\$ -	\$ 79,743
Total Assets	<u>-</u>	<u>\$ 79,743</u>
LIABILITIES		
Due to Student Groups	-	\$ 79,743
Total Liabilities	<u>-</u>	<u>\$ 79,743</u>

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

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

	Private Purpose Trust Fund
<hr/>	
ADDITIONS:	
Local and Intermediate Sources	\$ 5,000
Total Additions	<u>5,000</u>
DEDUCTIONS:	
Other Operating Costs	<u>5,000</u>
Total Deductions	<u>5,000</u>
Change in Net Position	-
Total Net Position - September 1 (Beginning)	<u>-</u>
Total Net Position - August 31 (Ending)	<u><u>\$ -</u></u>

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

**HOOKS INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2016**

Note A. Summary of Significant Accounting Policies

Hooks 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 promulgated by the Governmental Accounting Standards Board ("GASB") and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

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

In 2015, Hooks Independent School District implemented Governmental Accounting Standards Board (GASB) Number 68 *Accounting and Reporting for Pensions* to assume its proportionate share of the Net Pension Liability of the Teachers Retirement System of Texas (TRS).

As of August 31, 2016, Hooks Independent School District retrospectively/prospectively applied Governmental Accounting Standards Board ("GASB") Statement No. 72, *Fair 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.

1. Reporting Entity

The Board of School Trustees has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of Hooks Independent School District. The members of the Board of Trustees are elected by the public; have the authority to make decisions, appoint administrators and managers, and significantly influence operations; and have the primary accountability for fiscal matters. The District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14, *The Financial Reporting Entity*. There are no component units included within the reporting entity. The District receives funding from local, state and federal government sources and must comply with the requirements of these funding source entities.

2. 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 Hooks Independent School District nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues.

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

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

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

3. 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. 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 unmatured 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. Revenues are considered to be available when they are collectible, 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 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. Agency Funds apply the accrual basis of accounting, but do not have a measurement focus. With the flow of economic resources measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position.

4. Fund Accounting

The District's accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, equity, revenues, and expenditures or expenses.

The District reports the following major governmental funds:

General Fund - This fund is established to account for resources financing the fundamental operations of the District, in partnership with the community, in enabling and motivating students to reach their full potential. All revenues and expenditures not required to be accounted for in other funds are included here. This is a budgeted fund and any fund balances are considered resources available for current operations. Fund balances may be appropriated by the Board of Trustees to implement its responsibilities.

Debt Service Fund- This governmental fund is established to account for payment of principal and interest on long-term general obligation debt and other long-term debts for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the General Fund after all of the related debt obligations have been met.

Additionally, the District reports the following fund types:

Governmental Fund Type:

Special Revenue Funds - The District accounts for resources restricted or committed to specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods. The Food Service fund is the only required budgeted fund. For all other funds in this fund type, project accounting is employed to maintain integrity for the various sources of funds.

Fiduciary Fund Type:

Private Purpose Trust Funds - The District accounts for donations for which the donor has stipulated that both the principal and income may be used for purposes that benefit parties outside the District. The District's Private Purpose Trust Fund is the Scholarship Fund.

Agency Funds - The District utilizes Agency Funds to account for resources held for others in a custodial capacity. Financial resources for the Agency funds are recorded as assets and liabilities; therefore, these funds do not include revenues and expenditures and have no fund equity. The District's Agency Fund is the Student Activity Fund.

5. Cash Equivalents

The District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

6. Investments

Investments are recorded at fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

7. Inventories

All inventories are valued at cost using the first in/first out (FIFO) method. The District records purchases of supplies as expenditures. If any supplies are on hand at the end of the year, their total cost is recorded as inventory and the fund balance is reserved for the same amount.

8. Asset Capitalization and Useful Lives

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

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

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

	<u>Years</u>
Buildings	50
Building Improvements	50
Vehicles	7
Furniture and Equipment	10

9. Compensated Absences

Employees earn state personal leave which may either be taken or accumulated. Employees who complete their current contract and retire from Hooks Independent School District with a minimum of ten years of service are entitled to payment of their accumulated leave in a lump sum payment at rates set by the School Board. All unused leave is accrued when incurred in the government-wide 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.

10. Long-Term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. In the fund financial statements, governmental fund types the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenses or debt expenditures.

11. Deferred Outflows of Resources and Deferred Inflows of Resources

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

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

12. Fund Equity

The Governmental Accounting Standards Board (GASB) has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes. GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories as following:

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

Restricted fund balance – represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed fund balance – represents amounts that can only be used for specific purposes imposed by a formal action of the District’s highest level of decision-making authority, the Board. Committed resources cannot be used for any other purposes unless the Board removes or changes the specific use by taking the same formal action that imposed the constraint originally.

Assigned fund balance – represents amount the District intends to use for specific purposes as expressed by the Board or an official delegated with the authority. The Board has delegated the authority to assign fund balances to the Superintendent and Business Manager.

Unassigned fund balance – represents the residual classification for the general fund or deficit balances in other funds.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, committed fund balance, assigned fund balance, and then unassigned fund balance.

13. Worker's Compensation Plan

Hooks Independent School District entered into an agreement with the Texas Educational Insurance Association to self-fund their workers' compensation plan. The agreement was effective September 1, 2001 and is administered by Claims Administrative Services, Inc. Prior to audit of the plan, the fixed cost amount for the District was \$17,751 loss fund maximum was \$53,895. The loss fund amount is for Hooks Independent School District's claims and for claims of other group members in excess of their loss fund maximum.

The Statement of Changes in Liability from 09/01/15 thru 08/31/16 is as follows:

	01/11	12/13	13/14	14/15	15/16	Total
Unpaid claims at 9/1/15	12,274	2,864	5,940	17,381	-	38,459
Incurred Claims:						
Provisions for insured events of the current year					10,042	10,042
Increases (decreases) in provision for insured events of the prior years	(2,083)	(1,066)	(1,780)	(9,694)		(14,623)
Total incurred claims	(2,083)	(1,066)	(1,780)	(9,694)	10,042	(4,581)
Payments:						
Claims attributable to insured events of the current year					1,493	1,493
Claims attributable to insured events of the prior years	525	424	1,056	3,811		5,816
Total payments	525	424	1,056	3,811	1,493	7,309
Total unpaid claims 8/31/16*	9,666	1,374	3,104	3,876	8,549	26,569
*Minimum amount to be incurred. Calculation of this amount allows for estimated claims Incurred But Not Reported (IBNR)	7,065	912	1,660	1,533	3,434	14,604

14. Risk Management - Claims and Judgments

In the normal course of operations the District is exposed to risks of loss from a number of sources including fire and casualty losses, errors or omissions by board members and employees, and injuries to employees during the course of performing their duties. The District attempts to cover these losses by the purchase of insurance. Significant losses are covered by commercial insurance for property and liability programs. The District entered into an agreement with the Texas Educational Insurance Association to participate in their workers' compensation program. For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

In management's estimation there are no current loss claims that exceed the maximum coverage or any material unfunded claim benefit obligation for the self-funded programs.

15. Restricted Assets

When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.

16. Functions

School Districts are required to report all expenses by function, except certain indirect expenses. General administration, data processing service and other intergovernmental charges functions (data control codes 41, 53, and 99 respectively) include expenses that are indirect expenses of other functions. These indirect expenses are not allocated to other functions.

17. Data Control Codes

The Data Control Codes refer to the account code structure prescribed by 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 data base for policy development and funding plans.

18. Estimates and Assumptions

The preparation of financial statements in conformity with generally accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note B. Reconciliation of Government-Wide and Fund Financial Statements

Explanation of certain differences between the governmental funds 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 funds balance sheet and the net position for governmental activities as reported in the government-wide statement of net position.

One element of the reconciliation explains that capital assets 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 \$25,357,948 and the accumulated depreciation was (\$8,121,289). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period therefore are not reported as liabilities in the funds. At the beginning of the year, these long-term liabilities totaled (\$8,019,964). The net effect of including the beginning balances for capital assets (net of accumulated depreciation) and long-term debt in the governmental activities is to increase net position by \$9,216,695.

Another element of the reconciliation explains that current year capital outlays and long-term debt principal payments are reflected as expenditures in the fund financial statements, but are shown as increases in capital assets and reductions in long-term debt in the government-wide statement. This element affects both the balance of net position and the changes in net position. The net effect of including the current year capital outlays of \$80,080 and long-term debt principal payments of \$410,000 is to increase net position by \$490,080.

Another element of the reconciliation explains that 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 (\$2,097,802), a Deferred Resource Inflow related to TRS in the amount of (\$156,063) and a Deferred Resource Outflow related to TRS in the amount of \$1,215,191. This amounted to a decrease in net position in the amount of (\$1,038,674).

Another element of the reconciliation explains that current year depreciation expense is not reflected as expenditures in the fund financial statements, but is shown as increases in accumulated depreciation in the government-wide statement of net position. This element affects both the balance of net assets and the changes in net position. The net effect of including the current year depreciation expense is to decrease assets by (\$571,487).

The final element of the reconciliation describes various other assets and liabilities recognitions, reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting. The details for this element are as follows:

	<u>Amount</u>	<u>Net Position</u>
<u>Adjustments to Revenue and Unavailable Revenue</u>		
Uncollected taxes (assumed collectible) from prior year levy	123,416	
Uncollected taxes (assumed collectible) from current year levy	<u>66,449</u>	
		189,865
<u>Reclassify Liabilities Incurred But Not Liquidated This Year</u>		
Interest accrued on bonds payable from current year	(5,234)	
Unused leave accrued during current year	<u>(6,420)</u>	
		(11,654)
<u>Reclassify Liabilities Liquidated This Year</u>		
Leave liability liquidated during current year	<u>3,960</u>	
		3,960
<u>Adjustments for Bond Transactions This Year</u>		
Deferred charge on refunding bonds, net - beginning of year	11,928	
Deferred charge on current year refunding bonds	218,778	
Amortization of deferred charge on refunding bonds	(10,818)	
Amortization of bond premium/discount during year	41,305	
Proceeds from current year refunding bonds	(4,760,000)	
Proceeds from current year refunding bonds premium	(543,597)	
Payment to escrow to refund bond principal	4,910,000	
Refunding of premium/discount on bonds	<u>71,026</u>	
		<u>(61,378)</u>
Net Adjustments to Net Position - Increase		<u><u>120,793</u></u>

Explanation of certain differences between the governmental funds statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities - Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental funds 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 the reconciliation explains that current year capital outlays and long-term debt principal payments are reflected as expenditures in the fund financial statements, but are shown as increases in capital assets and reductions in long-term debt in the government-wide statement. This element affects both the balance of net position and the changes in net position. The net effect of removing the current year capital outlays of \$80,080 and long-term debt principal payments of \$410,000 is to increase net position by \$490,080.

Another element of the reconciliation explains that 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 caused the change in ending net position to increase in the amount of \$161,529. The District recorded their proportionate share of the pension expense during the measurement period as part of the net pension liability. The amounts expensed and de-expended caused a decrease in the change in net position of (\$312,094). The impact of all of these is to decrease the change in net position by (\$150,565).

Another element of the reconciliation explains that current year depreciation expense is not reflected as expenditures in the fund financial statements, but is shown as depreciation expense in the government-wide statement of activities. This element affects both the balance of net position and the changes in net position. The net effect of including the current year depreciation expense is to decrease assets by (\$571,487).

The final element of the reconciliation describes various other assets and liabilities recognitions, reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting. The details for this element are as follows:

	Amount	Adjustments to Changes in Net Position
<u>Adjustments to Revenue and Unavailable Revenue</u>		
Taxes collected from prior year levies	(78,359)	
Uncollected taxes (assumed collectible) from current year levy	66,449	
		(11,910)
<u>Reclassify Liabilities Incurred But Not Liquidated This Year</u>		
Interest accrued on bonds payable from current year	(5,234)	
Interest accrued on bonds payable from prior year	6,324	
Unused leave accrued during current year	(6,420)	
		(5,330)
<u>Reclassify Liabilities Liquidated This Year</u>		
Leave liability liquidated during current year	3,960	
		3,960
<u>Adjustments for Bond Transactions this year</u>		
Amortization of bond premium/discount during year	41,305	
Deferred charge on current year refunding bonds	218,778	
Amortization of deferred charge on refunding bond	(10,818)	
Proceeds from current year refunding bonds	(4,760,000)	
Proceeds from current year refunding bonds premium	(543,597)	
Payment to escrow to refund bond principal	4,910,000	
Refunding of premium/discount on bonds	71,026	
		(73,306)
Net Adjustments to Changes in Net Position - (Decrease)		(86,586)

Note C. Stewardship, Compliance and Accountability

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 appear in Exhibit J-2 and J-3.

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

1. Prior to August 20 of the preceding fiscal year, 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 as a policy of careful budgetary control, several amendments were necessary during the year. The following amendments were significant:

General Fund:	
Increase in revenues - State Program Revenues	200,000
(Increase) in expenditures Function 11 - Instruction	(50,000)
(Increase) in expenditures Function 36 - Extracurricular Activities	(85,000)
(Increase) in expenditures Function 51 - Facilities Maintenance and Operations	(65,000)
(Increase) in expenditures Function 93 - Payments to Fiscal Agent	(45,000)
Food Service Fund:	
Increase in revenues - Local and Intermediate Sources	18,000
(Increase) in expenditures Function 35 - Food Services	(18,000)
Debt Service Fund:	
(Increase) in expenditures Function 71 - Debt Service	(102,304)
Increase in other financing sources	5,303,598
(Increase) in other financing uses	(5,199,804)

Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

The District's Food Service Fund is considered a special revenue fund since it meets the following criteria: (1) User fees are charged to supplement the National School Lunch Program (NSLP), (2) The General Fund subsidizes the Food Service Program for all expenditures in excess of NSLP, and (3) The District does not consider the Food Service Program completely self-supporting. Food Service fund balances are used exclusively for child nutrition program purposes.

A reconciliation of fund balances for both appropriated budget and nonappropriated budget Nonmajor Governmental Special Revenue Funds is as follows:

	<u>8/31/2016</u>
	<u>Fund Balance</u>
Appropriated Budget Funds - Food Service Special Revenue Fund	30,321
Nonappropriated Budget Funds	-
	<hr/>
All Nonmajor Governmental Special Revenue Funds	<u><u>30,321</u></u>

Note D. Deposits and Investments

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. Since the District complies with this law, it has no custodial credit risk for deposits.

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 not investing in foreign currency.

The captions and amounts of cash and cash equivalents on the balance sheet and statement of fiduciary net position at August 31, 2016 consist of the following:

	General Fund	Debt Service Fund	Special Revenue Funds	Balance Sheet Total	Fiduciary Funds
Cash and Certificates of Deposit	2,160,285	26,716	28,703	2,215,704	79,743
Investments in Pools	78,106	9,465	-	87,571	-
Total	2,238,391	36,181	28,703	2,303,275	79,743

The District's cash deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) at August 31, 2016 were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name. The District's cash deposits were collateralized during the year ending August 31, 2016.

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

As of August 31, 2016, Hooks Independent School District had the following investments:

Investment Type	Investment Maturities (in years)			
	Fair Value*	Less than 1	1-5	6-10 More than 10
Investment Pools **				
TexPool***	38,210	38,210		
Lone Star ***	49,361	49,361		
Total	87,571	87,571		

*Fair value is the amount at which a security could be exchanged in a current transaction between willing parties, other than in a forced liquidation. Under GASB 31, all investments are recorded at fair value.

**Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in these pools is the same as the value of the shares in each pool.

***Investments in local government pool are based upon a contract and not the security itself. The above investment pools, which are regulated by the Securities and Exchange Commission, have as one of their objectives the maintenance of a stable net asset value of \$1.00.

The Texas Local Government Investment Pool ("TexPool") and the Lone Star Investment Pool ("Lone Star") are organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The Texas Comptroller of Public Accounts is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company ("Trust Company"), which is authorized to operate TexPool.

Pursuant to the TexPool Participation Agreement, administrative and investment services to TexPool are provided by Lehman Brothers Inc. and Federated Investor's, Inc., under an agreement with the Comptroller, acting on behalf of the Trust Company. In addition, the TexPool Advisory Board advises on TexPool's Investment Policy and approves any fee increases. As required by the Public Funds Investment Act, this Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool who are qualified to advise TexPool.

Lone Star's Advisory Board is composed of participants and other knowledgeable individuals representing public schools, public junior colleges, cities, counties, and other local governments. The purpose of the Advisory Board is to gather and exchange information from participants and nonparticipants relating to the operation of Lone Star Investment Pool. Lone Star employs an independent third-party bank, Mellon Bank, to perform custody and valuation services. Investment advisory services are provided by Standish Mellon and AMR Investments. An independent auditor, Ernst & Young LLP, provides an annual audit of Lone Star's financial statements.

Additional policies and contractual provisions governing deposits and investments for Hooks Independent School 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 Obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies and instrumentalities; certificates of deposits; fully collateralized repurchase agreements that have a defined termination date and secured by obligations of the United States or its agencies and instrumentalities; public funds investment pools; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States rated not less than A or its equivalent issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2016, the District's investments in public funds investment pools were rated AAAM and AAA by Standard & Poor's.

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 diversifies in terms of investment instruments, maturity scheduling, and financial institutions to reduce the risk of loss resulting from over concentration of assets in a specific class of investments, specific maturity, or specific issuer.

Interest Rate Risk - To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires invested instruments maturities do not exceed one year from the time of purchase except when a longer maturity may be specifically authorized by the Board for a given investment provided legal limits are not exceeded.

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 not investing in foreign currency.

Note E. 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. The assessed value of the roll on January 1, 2015 upon which the levy for the 2016 fiscal year was based was \$142,447,655. The tax rates levied for the year ended August 31, 2016 to finance General Fund operations and the payment of principal and interest on general obligations long-term debt were \$1.17 and \$.24 per \$100 per valuation respectively, for a total of \$1.41 per \$100 valuation.

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 when they are collected.

Note F. Delinquent Taxes Receivable

Delinquent taxes are prorated between maintenance (General Fund) and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General Fund and Debt Service Fund 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.

Note G. Disaggregation of Receivables and Payables

Receivables at August 31, 2016, were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Total Receivables</u>
Governmental Activities:			
General Fund	338,895	290,213	629,108
Debt Service	48,121	3,385	51,506
Nonmajor Governmental Funds (Special Revenue)	-	25,305	25,305
Total - Governmental Activities	<u>387,016</u>	<u>318,903</u>	<u>705,919</u>
 Amounts not scheduled for collection during the subsequent year	 <u>(197,151)</u>	 <u> </u>	 <u>(197,151)</u>

Payables at August 31, 2016, were as follows:

	<u>Salaries/ Benefits</u>	<u>Other Governments</u>	<u>Total Payables</u>
Governmental Activities:			
General Fund	297,912	10,967	308,879
Debt Service Fund	-	-	-
Nonmajor Governmental Funds (Special Revenue)	23,687	-	23,687
Total - Governmental Activities	<u>321,599</u>	<u>10,967</u>	<u>332,566</u>

Note H. Capital Asset Activity

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>Ending Balance</u>
Governmental Activities:				
Land	375,420	-	-	375,420
Building and Improvements	23,193,445	20,776	-	23,214,221
Furniture and Equipment	1,789,083	59,304	51,996	1,796,391
Totals at Historic Cost	<u>25,357,948</u>	<u>80,080</u>	<u>51,996</u>	<u>25,386,032</u>
Less Accumulated Depreciation for:				
Buildings and Improvements	6,795,446	459,671	-	7,255,117
Furniture and Equipment	1,325,843	111,816	51,996	1,385,663
Total Accumulated Depreciation	<u>8,121,289</u>	<u>571,487</u>	<u>51,996</u>	<u>8,640,780</u>
Governmental Activities:				
Land	375,420	-	-	375,420
Building and Improvements, Net	16,397,999	(438,895)	-	15,959,104
Furniture and Equipment, Net	463,240	(52,512)	-	410,728
Capital Assets, Net	<u>17,236,659</u>	<u>(491,407)</u>	<u>-</u>	<u>16,745,252</u>

Depreciation expense was charged to governmental functions as follows:

Governmental Activities:	
Instruction	314,107
Instructional Resources and Media Services	5,780
Curriculum Development and Instructional Staff	5,936
Instructional Leadership	13,719
School Leadership	41,265
Guidance, Counseling and Evaluation Services	17,579
Health Services	5,569
Student (Pupil) Transportation	3,769
Food Services	23,791
Cocurricular/Extracurricular Activities	30,834
General Administration	32,301
Plant Maintenance and Operations	64,682
Security and Monitoring	2,595
Data Processing Services	9,479
Community Services	81
Total Depreciation Expense - Governmental Activities	<u><u>571,487</u></u>

Note I. Bonds Payable and Debt Service Requirements

On October 9, 2008, Hooks Independent School District issued Unlimited Tax School Building Bonds, Series 2008 to renovate and add on to the junior high and high school campuses in the amount of \$3,800,000. The Series 2008 was comprised of \$640,000 in Current Interest Serial Bonds with stated interest rate of 4.00%, \$3,060,000 in Current Interest Term Bonds with stated interest rates ranging from 4.00% through 4.625%, and \$100,000 in Capital Appreciation Bonds. The Current Interest Serial Bonds will mature February 15, 2013 through 2018. The Current Interest Term Bonds will mature February 15, 2020, 2023, 2027, 2029, 2031 and 2033. The Capital Appreciation Bonds matured February 15, 2010, 2011 and 2012.

On May 20, 2010, Hooks Independent School District issued Unlimited Tax Refunding Bonds, Series 2010 to redeem in full Hooks Independent School District Unlimited Tax School Building Bonds, Series 2000 in the amount of \$3,035,000. The Series 2010 was comprised of \$2,940,000 in Current Interest Bonds with stated interest rates ranging between 2.00% through 4.00% and \$95,000 in Capital Appreciation Bonds. The Current Interest Bonds will mature February 15, 2012 through 2025. The Capital Appreciation Bonds matured February 15, 2011.

On February 9, 2012, Hooks Independent School District issued \$2,635,000 of Unlimited Tax Refunding Bonds Series 2012 to redeem the Unlimited Tax School Building Bonds, Series 2002. This issue was comprised of \$2,635,000 Current Interest Bonds with interest rates between 1.0-3.0% maturing annually from February 15, 2013 through 2027.

On March 16, 2016, the District issued \$4,760,000 of Unlimited Tax Refunding Bonds, Series 2016 with an interest rate ranging from 2.75% to 4.00% to advance refund \$4,910,000 of the Current Interest Series 2008 Refunded Bonds and Series 2010 Refunded Bonds outstanding. The refunding bond proceeds of \$4,760,000 bond principal proceeds and \$543,597 premium/discount on issuance of bonds is accounted for in the Debt Service Fund as other financing sources. The escrow payment of \$5,199,804 is accounted for in the Debt Service Fund as other financing uses. The funds were deposited in a trust with an escrow agent to provide all future debt service payments on Series 2008 bond when called on August 15, 2018 and on Series 2010 bond when called on August 15, 2017. As a result, these portions of the Unlimited Tax School Building Bonds, Series 2008 and Series 2010 is considered defeased and the District has removed the liability from its financial statements. The advance refunding reduced total debt service payments over the next 18 years by approximately \$720,459. This results in an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$616,254.

A summary of changes in bonded debt for the year ended August 31, 2016 is as follows:

	Stated Interest Rate	Amounts Original Issue	Amounts Outstanding 9/1/2015	Bonds Issued/ Accretion	Bonds Retired	Amounts Outstanding 8/31/2016
Unlimited Tax School Building Bonds Series 2008, Current Interest Serial Bonds maturing February 15, 2009 and 2013-2018	4.00%	640,000	275,000	- (a)	90,000	185,000
Unlimited Tax School Building Bonds Series 2008, Current Interest Term Bonds maturing February 15, 2020, 2023, 2027, 2029, 2031 and 2033	4.0-4.625%	3,060,000	3,060,000	- (b)	3,060,000	-
Unlimited Tax Refunding Bonds Series 2010, Current Interest Term Bonds maturity February 15, 2012-2025	2.0-4.0%	2,940,000	2,235,000	- (a) (b)	190,000 1,850,000	195,000
Unlimited Tax Refunding Bonds Series 2012, Current Interest Bonds maturing February 15, 2013-2027	1.0-3.0%	2,635,000	2,245,000	- (a)	130,000	2,115,000
Unlimited Tax Refunding Bonds Series 2016, Current Interest Bonds maturing February 15, 2018-2033	2.75-4.0%	4,760,000		(b) 4,760,000		4,760,000
			<u>7,815,000</u>	<u>4,760,000</u>	<u>5,320,000</u>	<u>7,255,000</u>

(a) Principal payments of \$410,000

(b) Refunding bonds issued of \$4,760,000; Bonds retired of \$4,910,000

In the governmental fund financial statements, the current expenditures for principal and interest expenditures are accounted for in the Debt Service Fund in the Statement of Revenues, Expenditures and Changes in Fund Balance. During the year ended August 31, 2016, the District paid \$410,000 in principal, \$282,567 in interest, and \$103,804 in fees.

In the government-wide financial statements, bonded indebtedness of the District is reflected in the Statement of Net Position. Premium on issuance of bonds, net of accumulated amortization, totaled \$592,430 at August 31, 2016. Amortization of \$41,305 is reflected in the Statement of Activities for the year ended August 31, 2016.

Bonded debt service requirements are as follows:

Year Ended	Unlimited Tax School Building Bonds		
	Principal	Interest	Total Requirements
<u>August 31</u>			
2017	425,000	232,688	657,688
2018	430,000	219,362	649,362
2019	445,000	204,762	649,762
2020	460,000	189,662	649,662
2021	480,000	173,812	653,812
2022-2026	2,605,000	590,663	3,195,663
2027-2031	1,745,000	214,738	1,959,738
2032-2033	665,000	18,769	683,769
	<u>7,255,000</u>	<u>1,844,456</u>	<u>9,099,456</u>

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2016. Hooks Independent School District has entered into a continuing disclosure undertaking to provide Annual Reports and material Event Notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of Hooks Independent School District.

Note J. Leave Benefits Payable

Employees earn state personal leave which may either be taken or accumulated. Employees who complete their current contract and retire from Hooks ISD with a minimum of 10 years of service are entitled to payment of their accumulated state personal leave in a lump sum payment at rates set by the School Board. The summary of changes in the liability are as follows:

Balance September 1, 2015	43,800
Additions	6,420
Deductions - Payments to Participants	-
Deductions - Leave Taken	<u>(3,960)</u>
Balance August 31, 2016	<u>46,260</u>

Note K. Changes in Long-Term Liabilities

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds	7,815,000	4,760,000	5,320,000	7,255,000	425,000
Bond Premium/Discount	161,164	543,597	112,331	592,430	-
Total Bonds and Notes Payable	<u>7,976,164</u>	<u>5,303,597</u>	<u>5,432,331</u>	<u>7,847,430</u>	<u>425,000</u>
Other Liabilities:					
Compensated Absences	43,800	6,420	3,960	46,260	-
Net Pension Liability	804,877	1,468,740	175,725	2,097,892	-
Total Other Liabilities	<u>848,677</u>	<u>1,475,160</u>	<u>179,685</u>	<u>2,144,152</u>	<u>-</u>
Total Governmental Activities					
Long-term Liabilities	<u>8,824,841</u>	<u>6,778,757</u>	<u>5,612,016</u>	<u>9,991,582</u>	<u>425,000</u>

Note L. Defined Benefit Pension Plan (TRS)

Plan Description. Hooks 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). TRS's defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

Pension Plan Fiduciary Net Position.

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

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

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

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 above.

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

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

Contribution Rates

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Member (Employees)	7.2%	6.7%	6.4%
Non-Employer Contributing Entity (State)	6.8%	6.8%	6.8%
Employer (District)	6.8%	6.8%	6.8%
HISD Member Contributions	415,650	404,848	366,512
HISD NECE On-Behalf Contributions	305,884	314,713	316,295
HISD Employer Contributions	161,529	175,761	76,385

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA). As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers including public 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 source or a privately sponsored source.

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

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

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

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases Including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.50%

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

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:

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

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

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%)
HISD's proportionate share of the net pension liability	3,286,861	2,097,802	1,107,390

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2016, Hooks ISD reported a liability of \$2,097,802 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Hooks ISD. The amount recognized by Hooks ISD 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 Hooks ISD were as follows:

District's proportionate share of the collective net pension liability	\$ 2,097,802
State's proportionate share that is associated with the District	<u>3,755,905</u>
Total	<u>\$ 5,853,707</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 was 0.0059346%, which was an increase (decrease) of 0.0029217% from its proportion measured as of August 31, 2014.

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

Economic Assumptions

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 terminative 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 idle 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 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, 2015, Hooks ISD recognized pension expense of \$535,156 and revenue of \$535,156 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 10,351	\$ 80,620
Changes in actuarial assumptions	43,506	74,840
Difference between projected and actual investment earnings	332,160	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	667,645	603
Total as of August 31, 2015 measurement date	\$ 1,053,662	\$ 156,063
Contributions paid to TRS subsequent to the measurement date (to be calculated by employer)	161,529	-
Total	\$ 1,215,191	\$ 156,063

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

Year ended August 31:	Pension Expense Amount
2017	\$ 165,226
2018	165,226
2019	165,226
2020	226,722
2021	96,917
Thereafter	78,282
	<u>\$ 897,599</u>

Note M. School District Retiree Health Plan (TRS)

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

Funding Policy – Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage.

Contribution rates and amounts are shown in the table below for fiscal years 2016-2014.

Contribution Rates and Contribution Amounts

Year	Rate	Amount	Rate	Amount	Rate	Amount
2016	0.65%	\$37,524	1.00%	\$52,372	0.55%	\$31,751
2015	0.65%	\$39,277	1.00%	\$54,433	0.55%	\$33,233
2014	0.65%	\$37,224	1.00%	\$54,729	0.55%	\$31,497

Note N. Medicare Part D (TRS)

Federal Government Retiree Drug Subsidy - The Medicare Modernization Act of 2003 (MMA) created an outpatient prescription drug benefit program (known as Medicare Part D) and a Retiree Drug Subsidy (RDS) program which were made available in 2006. The Texas Public School Retired Employee Group Insurance Program (TRS-Care) is offering a Medicare Part D Plan and is participating in the Retiree Drug Subsidy plan for eligible TRS-Care participants. Under Medicare Part D and the RDS program, TRS-Care receives payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments must be recognized as equal revenues and expenditures/expenses by each reporting entity.

The allocation of these on-behalf payments is based on the ratio of a reporting entity's covered payroll to the entire covered payroll reported by all participating reporting entities. TRS based this allocation percentage on the "completed" report submission by reporting entities for the month of May. Any questions about payroll amounts should be directed to a reporting entity's payroll contact.

Contribution amounts are as follows: State Contributions for Medicare Part D made on behalf of Hooks Independent School District's employees were \$17,465 for the year ended August 31, 2016. State Contributions for Medicare Part D made on behalf of Hooks Independent School District's employees were \$17,919 for the year ended August 31, 2015. State Contributions for Medicare Part D made on behalf of Hooks Independent School District's employees were \$15,862 for the year ended August 31, 2014.

Note O. Health Care Coverage

During the year ended August 31, 2016 employees of Hooks Independent School District were covered by a uniform statewide health care program for public education employees. The District contributed \$225 per month, which includes the \$75 which is reimbursed by the state, per employee to the Plan. Employees, at their option, may authorize payroll withholdings to pay the remaining balance of the premium for employee coverage and/or dependents. All contributions/premiums were paid to the statewide health care program. The Plan was authorized by House Bill 3343 and will be administered by the Teacher Retirement System of Texas (TRS). The TRS board approved the selection of Aetna as the health plan administrator and Caremark as the pharmacy benefits manager for TRS-ActiveCare.

Effective September 1, 2005 Hooks Independent School District entered into an interlocal agreement with Bowie County Schools Health Cooperative. The Bowie County Schools Health Cooperative continues to administer dental insurance. Participating members of the dental cooperative include New Boston ISD, DeKalb ISD, Hooks ISD, Malta ISD and Bowie County Schools Transportation Cooperative. Effective September 1, 2016 New Boston ISD elected to exit the interlocal agreement.

Note P. Commitments and Contingencies

Litigation - The District may be subjected to loss contingencies arising principally in the normal course of operations. In the opinion of the administration, the outcomes of these lawsuits will not have a material adverse effect on the accompanying financial statements and accordingly, no provision for losses has been recorded.

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

Note Q. Deferred Outflows of Resources (Government-Wide Activities)

The following is a summary of changes in deferred outflows of resources - deferred charges on refunding for the year ended August 31, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Deferred charges on refundings	<u>11,928</u>	<u>218,778</u>	<u>10,818</u>	<u>219,888</u>

Deferred charges on refunding bond, net of accumulated amortization totaled \$219,888 at August 31, 2016. Amortization of \$10,818 is reflected in the Statement of Activities for the year ended August 31, 2016.

Note R. Deferred Inflows of Resources (Governmental Funds)

Unavailable revenue – property taxes sat August 31, 2016 consisted of the following:

	General Fund	Debt Service Fund	Total
Net uncollected tax revenue	<u>168,760</u>	<u>21,105</u>	<u>189,865</u>

Note S. Due From/To 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/to federal and state governments as of August 31, 2016 are summarized below. All federal grants shown below are passed through the TEA and are reported on combined financial statements as due from/to other governments.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Total</u>
Governmental Activities:			
<u>Due From Other Governments</u>			
General Fund	290,213	-	290,213
Nonmajor Governmental Funds (Special Revenue)	1,299	24,006	25,305
Debt Service Fund	3,385	-	3,385
	<u>294,897</u>	<u>24,006</u>	<u>318,903</u>
<u>Due To Other Governments</u>			
General Fund	10,967	-	10,967
	<u>10,967</u>	<u>-</u>	<u>10,967</u>

Note T. Transfer In and Transfer Out

	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund:		
Operating transfer in from General Fund	185,322	-
Operating transfer (out) to General Fund	-	185,322
	<u>185,322</u>	<u>185,322</u>

The General Fund transferred \$185,322 to the band and athletic funds to cover year-end deficits.

Note. U. Shared Service Arrangements

The District participates in several Shared Service Arrangements (“SSA”) described as follows:

State Funded - New Boston ISD fiscal agent: The District participates in a State funded SSA which provides special education services and alternative education services to member districts. In addition to the District, other member districts include various other districts in Bowie County. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent.

State Funded - Bowie County Schools Transportation Department fiscal agent: The District participates in a state funded SSA which provides transportation services to member districts. In addition to the District, other member districts include all the districts in Bowie County. All services are provided by the fiscal agent. The Texas Education Agency and the member districts provide funds to the fiscal agent. Although a portion of the funding received by the fiscal agent from the Texas Education Agency is attributable to the District’s participation; the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The fiscal agent manager is responsible for all financial activities of the shared service arrangement.

The District has accounted for their portion of the payment of the activities of the SSA in the General Fund Function 93, Shared Services Arrangements, and has accounted for the payment using Model 3 in the SSA section of the Resource Guide. These payments totaled \$462,448 for the year ended August 31, 2016 and were as follows:

SSA - Special Education	298,565
SSA - Alternative Education	11,670
SSA - Transportation	<u>152,213</u>
	<u><u>462,448</u></u>

State and Federally Funded – New Boston ISD fiscal agent - The District participates in a state and federally funded SSA which provides special education services to member districts. In addition to the District other member districts include various other districts in Bowie County. All services are provided by the fiscal agent. The Texas Education Agency provides state and federal grant funds to the fiscal agent. Although a portion of the activity of the shared services arrangement is attributable to the District’s participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The fiscal agent is neither accumulating significant financial resources nor fiscal contingencies that would give rise to a future additional benefit or burden to Hooks Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. The fiscal agent has accounted for the activities of the SSA using Model 2 in the SSA section of the Resource Guide.

The fiscal agent has accounted for the grant funds as follows:

- SSA - State Funded Visually Impaired
- SSA - Federally Funded IDEA, Part B Formula
- SSA - Federally Funded IDEA, Part B Preschool

Note V. General Fund Federal Source Revenues

<u>Program or Source</u>	<u>CFDA Number</u>	<u>Amount</u>
Indirect Cost:		
Title IV, Pt. B 21st Century Community Learning	84.287C	15,586
ESEA Title I, Part A - Improving Basic Programs	84.010A	5,192
ESEA Title II, Part A - Teacher & Principal Training	84.367A	<u>1,109</u>
		<u><u>21,887</u></u>

Note W. Revenue from Local and Intermediate Sources

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

<u>Revenue Sources</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Governmental Funds Total</u>	<u>Private Purpose Trust Fund</u>
Property taxes and tax related income	1,697,989	343,116	-	2,041,105	-
Investment income	21,056	14,887	-	35,943	-
Food service sales	-	-	94,015	94,015	-
Co-curricular	29,845	-	-	29,845	-
Gifts and bequests	10,343	-	-	10,343	5,000
Other local sources	39,131	-	-	39,131	-
	<u>1,798,364</u>	<u>358,003</u>	<u>94,015</u>	<u>2,250,382</u>	<u>5,000</u>

Note X. Subsequent Events

In reviewing its financial statements, management has evaluated events subsequent to the balance sheet date through December 7, 2016, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

HOOKS 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	\$ 1,789,000	\$ 1,797,000	\$ 1,798,364	\$ 1,364
5800 State Program Revenues	6,574,677	6,774,677	6,759,955	(14,722)
5900 Federal Program Revenues	19,500	19,500	21,887	2,387
5020 Total Revenues	8,383,177	8,591,177	8,580,206	(10,971)
EXPENDITURES:				
Current:				
0011 Instruction	4,673,382	4,723,382	4,714,564	8,818
0012 Instructional Resources and Media Services	84,816	88,816	86,941	1,875
0013 Curriculum and Instructional Staff Development	101,695	101,695	96,135	5,560
0021 Instructional Leadership	48,265	48,265	44,763	3,502
0023 School Leadership	662,843	662,843	647,666	15,177
0031 Guidance, Counseling and Evaluation Services	300,043	300,043	288,752	11,291
0033 Health Services	93,426	93,426	91,479	1,947
0034 Student (Pupil) Transportation	28,005	30,005	26,849	3,156
0036 Extracurricular Activities	425,345	510,345	506,496	3,849
0041 General Administration	368,044	378,044	375,117	2,927
0051 Facilities Maintenance and Operations	998,549	1,063,549	1,060,908	2,641
0052 Security and Monitoring Services	47,400	47,400	42,626	4,774
0053 Data Processing Services	157,207	157,207	155,586	1,621
0061 Community Services	2,000	2,000	1,334	666
Capital Outlay:				
0081 Facilities Acquisition and Construction	32,000	32,000	20,776	11,224
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	418,600	463,600	462,448	1,152
0099 Other Intergovernmental Charges	30,000	30,000	26,294	3,706
6030 Total Expenditures	8,471,620	8,732,620	8,648,734	83,886
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(88,443)	(141,443)	(68,528)	72,915
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	-	32,000	32,629	629
7915 Transfers In	207,000	190,000	185,322	(4,678)
8911 Transfers Out (Use)	(175,000)	(190,000)	(185,322)	4,678
7080 Total Other Financing Sources (Uses)	32,000	32,000	32,629	629
1200 Net Change in Fund Balances	(56,443)	(109,443)	(35,899)	73,544
0100 Fund Balance - September 1 (Beginning)	2,255,624	2,255,624	2,255,624	-
3000 Fund Balance - August 31 (Ending)	\$ 2,199,181	\$ 2,146,181	\$ 2,219,725	\$ 73,544

HOOKS 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-6

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.0059346%	0.0030129%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 2,097,802	\$ 804,787
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	3,755,905	3,339,554
Total	<u>\$ 5,853,707</u>	<u>\$ 4,144,341</u>
District's Covered-Employee Payroll	\$ 6,042,510	\$ 5,726,778
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	34.72%	14.05%
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."

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

EXHIBIT G-7

	2016	2015
Contractually Required Contribution	\$ 161,529	\$ 175,761
Contribution in Relation to the Contractually Required Contribution	(161,529)	(175,761)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
District's Covered-Employee Payroll	\$ 5,772,915	\$ 6,042,510
Contributions as a Percentage of Covered-Employee Payroll	2.80%	2.91%

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."

HOOKS INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE 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 the summary of changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

- The inflation assumption was decreased from 3.00% to 2.50%
- The ultimate merit assumption for long-service employees was decreased from 1.25% to 1.00%
- In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
- The payroll growth assumption was lowered from 3.50% to 2.50%
- The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
- 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 terminative employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
- There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the end of the year to the beginning to match the actual pattern in the data.
- Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
- Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
- For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint survivor annuity option.
- The method of using celled data in the valuation process was changed to now using individual data records to allow for better reporting of some items, such as actuarial gains and losses by source.

COMBINING SCHEDULES

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

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	265 Title IV, B Community Learning	
ASSETS					
1110	Cash and Cash Equivalents	\$ -	\$ 28,703	\$ -	\$ -
1240	Receivables from Other Governments	10,174	11,481	2,351	-
1000	Total Assets	\$ 10,174	\$ 40,184	\$ 2,351	\$ -
LIABILITIES					
2160	Accrued Wages Payable	\$ 10,174	\$ 9,863	\$ 2,351	\$ -
2000	Total Liabilities	10,174	9,863	2,351	-
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	30,321	-	-
3000	Total Fund Balances	-	30,321	-	-
4000	Total Liabilities and Fund Balances	\$ 10,174	\$ 40,184	\$ 2,351	\$ -

410 State Textbook Fund	429 Other State Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 28,703
<u>-</u>	<u>1,299</u>	<u>25,305</u>
<u>\$ -</u>	<u>\$ 1,299</u>	<u>\$ 54,008</u>
\$ -	\$ 1,299	\$ 23,687
<u>-</u>	<u>1,299</u>	<u>23,687</u>
<u>-</u>	<u>-</u>	<u>30,321</u>
<u>-</u>	<u>-</u>	<u>30,321</u>
<u>\$ -</u>	<u>\$ 1,299</u>	<u>\$ 54,008</u>

HOOKS 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	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	265 Title IV, B Community Learning
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ 94,015	\$ -	\$ -
5800 State Program Revenues	-	7,360	-	-
5900 Federal Program Revenues	143,663	295,102	32,509	576,404
5020 Total Revenues	<u>143,663</u>	<u>396,477</u>	<u>32,509</u>	<u>576,404</u>
EXPENDITURES:				
Current:				
0011 Instruction	135,663	-	2,351	211,182
0012 Instructional Resources and Media Services	8,000	-	-	-
0013 Curriculum and Instructional Staff Development	-	-	-	1,367
0021 Instructional Leadership	-	-	-	178,328
0023 School Leadership	-	-	30,158	-
0034 Student (Pupil) Transportation	-	-	-	35,064
0035 Food Services	-	390,804	-	-
0041 General Administration	-	-	-	150,463
0051 Facilities Maintenance and Operations	-	1,571	-	-
0053 Data Processing Services	-	114	-	-
6030 Total Expenditures	<u>143,663</u>	<u>392,489</u>	<u>32,509</u>	<u>576,404</u>
1200 Net Change in Fund Balance	-	3,988	-	-
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>26,333</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ 30,321</u>	<u>\$ -</u>	<u>\$ -</u>

410 State Textbook Fund	429 Other State Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 94,015
53,330	42,927	103,617
-	6,868	1,054,546
<u>53,330</u>	<u>49,795</u>	<u>1,252,178</u>
53,330	42,521	445,047
-	-	8,000
-	-	1,367
-	2,268	180,596
-	-	30,158
-	-	35,064
-	-	390,804
-	5,006	155,469
-	-	1,571
-	-	114
<u>53,330</u>	<u>49,795</u>	<u>1,248,190</u>
-	-	3,988
-	-	26,333
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,321</u>

REQUIRED T.E.A. SCHEDULES

HOOKS 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	1.040000	0.150000	119,480,000
2009	1.040000	0.235000	130,100,392
2010	1.040000	0.220000	133,306,508
2011	1.040000	0.220000	138,357,372
2012	1.040000	0.220000	144,105,488
2013	1.170000	0.090000	145,521,855
2014	1.170000	0.090000	150,885,092
2015	1.170000	0.240000	151,004,406
2016 (School year under audit)	1.170000	0.240000	142,447,655
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
\$ 102,792	\$ -	\$ 5,492	\$ 376	\$ (19,138)	\$ 77,786
16,458	-	399	58	(679)	15,322
16,827	-	661	149	(728)	15,289
20,843	-	1,331	282	(1,105)	18,125
21,040	-	1,313	278	(897)	18,552
27,197	-	2,189	463	(1,185)	23,360
34,618	-	5,889	453	(1,192)	27,084
56,464	-	14,769	1,136	(1,273)	39,286
128,634	-	51,110	10,484	(3,426)	63,614
-	2,008,512	1,560,697	320,137	(39,079)	88,599
<u>\$ 424,872</u>	<u>\$ 2,008,512</u>	<u>\$ 1,643,850</u>	<u>\$ 333,816</u>	<u>\$ (68,702)</u>	<u>\$ 387,016</u>

HOOKS INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL -FOOD 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	\$ 73,200	\$ 91,200	\$ 94,015	\$ 2,815
5800 State Program Revenues	7,200	7,200	7,360	160
5900 Federal Program Revenues	304,000	304,000	295,102	(8,898)
5020 Total Revenues	384,400	402,400	396,477	(5,923)
EXPENDITURES:				
0035 Food Services	368,533	393,533	390,804	2,729
0051 Facilities Maintenance and Operations	11,100	4,100	1,571	2,529
0053 Data Processing Services	300	300	114	186
6030 Total Expenditures	379,933	397,933	392,489	5,444
1100 Excess of Revenues Over Expenditures	4,467	4,467	3,988	(479)
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	500	500	-	(500)
1200 Net Change in Fund Balances	4,967	4,967	3,988	(979)
0100 Fund Balance - September 1 (Beginning)	26,333	26,333	26,333	-
3000 Fund Balance - August 31 (Ending)	\$ 31,300	\$ 31,300	\$ 30,321	\$ (979)

HOOKS 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	\$ 334,800	\$ 334,800	\$ 358,003	\$ 23,203
5800	State Program Revenues	365,000	365,000	370,703	5,703
5020	Total Revenues	699,800	699,800	728,706	28,906
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	410,000	410,000	410,000	-
0072	Interest on Long Term Debt	282,570	282,570	282,567	3
0073	Bond Issuance Cost and Fees	1,500	103,804	103,804	-
6030	Total Expenditures	694,070	796,374	796,371	3
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	5,730	(96,574)	(67,665)	28,909
OTHER FINANCING SOURCES (USES):					
7911	Capital Related Debt Issued (Regular Bonds)	-	4,760,000	4,760,000	-
7916	Premium or Discount on Issuance of Bonds	-	543,598	543,597	(1)
8949	Other (Uses)	-	(5,199,804)	(5,199,804)	-
7080	Total Other Financing Sources (Uses)	-	103,794	103,793	(1)
1200	Net Change in Fund Balances	5,730	7,220	36,128	28,908
0100	Fund Balance - September 1 (Beginning)	3,348	3,438	3,438	-
3000	Fund Balance - August 31 (Ending)	\$ 9,078	\$ 10,657	\$ 39,566	\$ 28,909

FEDERAL AWARDS SECTION

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

Independent Auditor's Report

Board of Trustees
Hooks Independent School District
100 E. 5th Street
Hooks, TX 75561

Members of the Board:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hooks Independent School District (the District) as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 7, 2016.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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



WILF & HENDERSON, P.C.
Certified Public Accountants
Texarkana, Texas

December 7, 2016

**REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY UNIFORM GUIDANCE**

Independent Auditor's Report

Board of Trustees
Hooks Independent School District
100 E. 5th Street
Hooks, TX 75561

Members of the Board:

Report on Compliance for Each Major Federal Program

We have audited Hooks Independent School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended August 31, 2016. The 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 Hooks 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 Hooks 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 Hooks Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Hooks 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.

Report on Internal Control Over Compliance

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

This purpose of this report in 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.



WILF & HENDERSON, P.C.
Certified Public Accountants
Texarkana, Texas

December 7, 2016

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

I. Summary of the Auditor's Results:

- a. The type of report issued on the financial statements of the Hooks Independent School District was an unmodified opinion.
- b. No significant deficiencies or material weaknesses relating to the audit of the financial statements are reported in the report on internal control over financial reporting and on compliance and other matters required by the GAO's *Government Auditing Standards*.
- c. No instances of noncompliance material to the financial statements of the Hooks Independent School District were disclosed during the audit.
- d. No significant deficiencies or material weaknesses relating to the audit of the major federal award program are reported in the report on internal control over compliance required by Uniform Guidance.
- e. The type of report the auditor issued on compliance for major programs was an unmodified opinion.
- f. No audit findings relative to the major federal awards programs were disclosed by the audit that were required to be reported under Section 510(a) of Uniform Guidance.
- g. The program tested as major programs was:
 - Title IV, Pt B - 21st Century Community Learning
 - CFDA# 84.287C
- h. The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
- i. Hooks Independent School District was determined to be a low-risk auditee.

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

No findings required to be reported.

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.f Above

No findings required to be reported.

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

There were no prior year audit findings or questioned costs.

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

There were no current year audit findings or questioned costs.

HOOKS 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
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	16-61010109902	\$ 138,682
ESEA, Title I, Part A - Improving Basic Programs	84.010A	17-61010109902	10,174
Total CFDA Number 84.010A			148,856
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287C	16-6950197110014	567,845
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287C	17-6950197110014	24,143
Total CFDA Number 84.287C			591,988
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	16-694501019902	31,267
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	17-694501019902	2,351
Total CFDA Number 84.367A			33,618
Total Passed Through State Department of Education			\$ 774,462
TOTAL U.S. DEPARTMENT OF EDUCATION			\$ 774,462
U.S. DEPARTMENT OF LABOR			
<u>Passed Through the Texas Workforce Commission</u>			
WIA Dislocated Workers Formula Grants	17.278	0716ATP000	\$ 4,790
Temporary Asst Needy Families	93.558	0716ATP000	2,078
Total Passed Through the Texas Workforce Commission			\$ 6,868
TOTAL U.S. DEPARTMENT OF LABOR			\$ 6,868
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program - Cash Assistance	10.553	16166TX332N1099	\$ 65,058
*School Breakfast Program - Non-Cash Assistance	10.553	N/A	6,942
Total CFDA Number 10.553			72,000
*National School Lunch Program - Cash Assistance	10.555	16166TX332N1099	161,126
*National School Lunch Prog. - Non-Cash Assistance	10.555	N/A	16,198
Total CFDA Number 10.555			177,324
Total Child Nutrition Cluster			249,324
Child & Adult Care Food Program - Cash Assistance	10.558	16166TX332N1099	42,497
Child & Adult Care Food Program - Cash Assistance	10.558	16166TX352N2020	3,282
Total CFDA Number 10.558			45,779
Total Passed Through the State Department of Agriculture			\$ 295,103
TOTAL U.S. DEPARTMENT OF AGRICULTURE			\$ 295,103
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,076,433

*Clustered Programs as Required by Compliance Supplement June 2016

**HOOKS 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 or committed to 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. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

The modified accrual basis of accounting is used for the Governmental Fund types, 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 unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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

3. The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, Uniform Guidance.
4. Nonmonetary assistance received from the Commodity Supplemental Food Program is recorded in fair market value of the commodities received and disbursed. The revenue and expense are reported in the Food Service Special Revenue Fund.

Communication with Those Charged with Governance

December 7, 2016

Board of Trustees
Hooks Independent School District
100 E. 5th Street
Hooks, Texas 75561

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hooks Independent School District for the year ended August 31, 2016. Professional standards require that we provide you with the information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated March 4, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note A to the financial statements. Hooks Independent School District implemented a new policy under Governmental Accounting Standards Board (GASB) Number 72, *Fair Value Measurement and Application* to determine a fair value measurement for reporting and applying fair value to certain investments. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements were:

The estimate for GASB Statement 68 which required the employer to report the net pension asset or liability, pension expense, and related deferred inflows and outflows of resources associated with providing retirement benefits to their employees and former employees in their basic financial statements. We evaluated the key factors and assumptions used to develop these estimates in determining that it was reasonable in relation to the financial statements as a whole.

The estimate of state funding. Management's estimate of state funding was based on the latest version of the Texas Education Agency's Summary of Finance and the state funding template prepared by the District's personnel. We evaluated the key factors and assumptions used to develop the estimate of state funding in determining that it was reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

In addition, we did identify uncorrected misstatements of the financial statements for the current year in the General Fund. There were unrecorded accounts payables for monthly utility services and other payables of \$23,362 with corresponding increase in expenditures. We did identify uncorrected misstatements of the financial statements for the prior year in the General Fund. There were unrecorded accounts payables of \$26,111 for monthly utility services and other payables with corresponding decrease in expenditures; and Shared Service Arrangements – Special Education unrecorded liability amount of \$7,427 with corresponding increase in expenditures. Management has determined that their effects are immaterial both individually and in the aggregate to the financial statements as a whole.

Disagreements with Management

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated December 7, 2016.

Management Consultations with Other Independent Accountants

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

Other Audit Findings or Issues

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

Other Matters

We applied certain limited procedures to the management's discussion and analysis on pages 5-11, budgetary information on page 45, schedule of the District's proportionate share of the net pension liability (TRS) on page 46, and schedule of District contributions to TRS on page 47 be presented to supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining financial statements, which accompany the financial statements but not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We applied certain limited procedures to the required TEA Schedules on pages 53-56, which is certain information required to be included by the Texas Education Agency that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the required TEA Schedules and do not express an opinion or provide any assurance on the required TEA Schedules.

We would also like to express our appreciation for the cooperation and assistance received from you and from the personnel during the course of our audit.

Restriction on Use

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

Wulf & Henderson, P.C.

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Certified Public Accountants
Texarkana, Texas