

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

POTEET 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	3
Independent Auditor's Report	4-6
Management's Discussion and Analysis	7-13
<u>Basic Financial Statements</u>	
Government Wide Statements:	
A-1 Statement of Net Position	14
B-1 Statement of Activities	15
Governmental Fund Financial Statements:	
C-1 Balance Sheet	16
C-2 Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	17
C-3 Statement of Revenues, Expenditures, and Changes in Fund Balance	18
C-4 Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	19
Proprietary Fund Financial Statements:	
D-1 Statement of Net Position	20
D-2 Statement of Revenues, Expenses, and Changes in Fund Net Position	21
D-3 Statement of Cash Flows	22
Fiduciary Fund Financial Statements:	
E-1 Statement of Fiduciary Net Position	23
Notes to Financial Statements	24-51
<u>Required Supplementary Information</u>	
G-1 Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	52
G-2 Schedule of the District's Proportionate Share of the Net Pension Liability - Teacher Retirement System of Texas	53
G-3 Schedule of District Contributions - Teacher Retirement System of Texas	54
Notes to Required Supplementary Information	55-56
<u>Combining and Other Statements</u>	
Nonmajor Governmental Funds:	
H-1 Combining Balance Sheet	57-60
H-2 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	61-64
Agency Funds:	
H-3 Statement of Changes in Assets and Liabilities	65
<u>T.E.A. Required Schedules</u>	
J-1 Schedule of Delinquent Taxes Receivable	66-67
J-2 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Child Nutrition Program	68
J-3 Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - Debt Service Fund	69

TABLE OF CONTENTS (CONTINUED)

<u>Exhibit</u>	<u>Page</u>
<u>Federal Section</u>	
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	70-71
Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance and on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	72-73
Schedule of Findings and Questioned Costs	74-75
Summary Schedule of Prior Audit Findings	76
Corrective Action Plan	77
K-1 Schedule of Expenditures of Federal Awards	78
Notes on Accounting Policies for Federal Awards	79
L-1 Schools First Questionnaire	

CERTIFICATE OF BOARD

Poteet Independent School District
Name of School District

Atascosa
County

007906
Co.-Dist. Number

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

Louis Vasquez
Signature of Board Secretary

Barbara Reyes
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)

COLEMAN, HORTON & COMPANY, LLP

Certified Public Accountants

400 E. NOPAL ST
LUNDALE, TEXAS 78901-5305

ROBERT O. COLEMAN, CPA
STEPHEN L. HORTON, CPA
DEBORAH V. McDONALD, CPA
DEREK L. WALKER, CPA
DUSTY R. ROUTH, CPA

830-278-6276
FAX 830-278-6868
chc@colemanhortoncpa.com

Independent Auditor's Report

To the Board of Trustees
Poteet Independent School District
Poteet, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Poteet Independent School District as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Poteet Independent School 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 Poteet Independent School District as of August 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability, and schedule of District contributions on pages 7-13 and 52-54 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Poteet Independent School District's basic financial statements. The combining and individual nonmajor fund 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 and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2016 on our consideration of the Poteet 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 Poteet Independent School District's internal control over financial reporting and compliance.

Coleman, Horton & Company, LLP

Certified Public Accountants

Uvalde, Texas

November 23, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The annual financial report of Poteet Independent School District (the District) is presented in six sections, management's discussion and analysis (this part), basic financial statements, required supplementary information, combining and other statements, T.E.A. required schedules, and the federal section. This section of the District's annual financial report presents our discussion and analysis of the financial performance during the fiscal year ending August 31, 2016. Please read it in conjunction with the District's financial section, which follows.

Overview of the Basic Financial Statements

The basic financial statements include two kinds of statements that present different views of the District:

- * The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.
- * The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the government-wide statements.
 - * The *governmental fund* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
 - * *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the government operates like *businesses*, such as self-insured worker's compensation.
 - * *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's *net position* and how they have changed. Net position—the difference between the District's assets, deferred outflows, liabilities, and deferred inflows—is one way to measure the District's financial health or *position*.

- * Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- * To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's tax base.

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds* not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- * Some funds are required by State law and by bond covenants.
- * The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has three kinds of funds:

- * *Governmental funds*-Most of the District’s basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District’s programs. Because this information does not encompass the additional long-term focus of government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, then explain the relationship (or differences) between them.
- * *Proprietary funds*-Services for which the District charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
 - * We use *internal service funds* to report activities that provide supplies and services for the District’s other programs and activities-such as the District’s Self-Insured Worker’s Compensation Fund.
- * *Fiduciary funds*-The District is the trustee, or *fiduciary*, for certain funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District’s fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District’s government-wide financial statements because the District cannot use these assets to finance its operations.

Financial Highlights

- * The District’s combined net position was \$4,005,298 at August 31, 2016, a decrease of \$1,397,178 from the prior year.
- * During the year, the District’s revenues were \$22,929,687 as reflected below:

		<u>Governmental Activities</u>	
		<u>Current Year</u>	<u>Prior Year</u>
a)	Taxes	\$ 3,232,446	\$ 3,243,485
b)	State Aid	14,407,617	13,927,825
c)	Federal Aid	3,698,774	3,622,376
d)	Investment Earnings	14,385	27,738
e)	Other	<u>1,576,465</u>	<u>879,963</u>
	Total Revenue	<u>\$22,929,687</u>	<u>\$21,701,387</u>

* During the year, the District's expenses were \$24,326,865 as reflected below:

	<u>Governmental Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
a) Instruction and instructional related	\$11,695,961	\$10,967,003
b) Instructional leadership/school leadership	2,523,280	2,508,075
c) Guidance, social work, health, transportation	1,554,675	1,706,693
d) Food services	1,306,300	1,208,062
e) Extracurricular activities	1,017,896	1,032,849
f) General administration	999,240	1,077,676
g) Plant maintenance and security	2,692,361	2,916,850
h) Data processing services	549,910	522,267
i) Community services	118,259	113,073
j) Debt services	1,368,802	1,428,490
k) Payments to fiscal agent/JJAEP/Other	<u>500,181</u>	<u>345,918</u>
Total Expenses	<u>\$24,326,865</u>	<u>\$23,826,956</u>

* The general fund reported a fund balance this year of \$7,968, a decrease of \$3,099,486 from the prior year.

* The District retired debt of \$1,375,753 during the year, and issued refunding bonds of \$7,175,000.

* The capital projects fund expended \$1,762,207 for new facility upgrades using the remainder of the 2012 bond proceeds.

* The general fund transferred \$87,844 to the debt service fund, \$1,583,893 to the capital projects fund, and \$289,143 to the special revenue funds.

* The special revenue funds transferred \$87,046 to the general fund.

* The proprietary fund transferred \$60,000 to the general fund.

* The District's combined net position was \$4,005,298 at August 31, 2016, as reflected below:

	<u>Governmental Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
Current and other assets	\$ 2,292,709	\$ 6,439,031
Capital and non-current assets	<u>37,760,203</u>	<u>36,281,854</u>
Total Assets	<u>40,052,912</u>	<u>42,720,885</u>
Deferred Outflow of Resources	<u>1,769,660</u>	<u>659,051</u>
Current liabilities	1,424,128	2,219,857
Long term liabilities	<u>36,023,390</u>	<u>34,833,755</u>
Total Liabilities	<u>37,447,518</u>	<u>37,053,612</u>
Deferred Inflows of Resources	<u>369,756</u>	<u>923,848</u>
Net position:		
Net investment in capital assets	6,703,796	4,468,168
Restricted	20,006	300,454
Unrestricted	<u>(2,718,504)</u>	<u>633,854</u>
Total Net Position	<u>\$ 4,005,298</u>	<u>\$ 5,402,476</u>

* Property tax rates were unchanged from the prior year. The tax base increased during the past year by \$2,408,424. The tax levy increased by \$34,176.

* State aid increased for the year by \$479,792.

* Federal aid increased for the year by \$76,398.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget several times. Even with these adjustments, actual expenditures were \$635,412 below final budget amounts. The most significant positive variance resulted from instructional and transportation efficiencies. Resources available were \$496,240 above the final budgeted amount.

* Local revenue sources were less than expected by \$510,422.

* State funding was \$556,859 more than projected.

* Federal revenue was \$449,803 above budget.

Capital Assets and Debt Administration

Capital Assets

Capital assets for the District at the end of the fiscal year August 31, 2016 amounted to \$37,760,203. It is the District's policy to record as a current expenditure any purchases less than \$5,000. The total capital assets recorded were land and its improvements, buildings, equipment and vehicles as reflected below:

District's Capital Assets

	<u>Governmental Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
Land	\$ 393,268	\$ 393,268
Buildings and improvements	50,386,255	40,090,780
Construction in progress	-	7,252,981
Property under capital lease	355,572	355,572
Equipment and vehicles	<u>2,809,201</u>	<u>2,777,965</u>
Totals at historical cost	53,944,296	50,870,566
Total accumulated depreciation	<u>(16,184,093)</u>	<u>(14,588,712)</u>
Net capital assets	<u>\$37,760,203</u>	<u>\$36,281,854</u>

Long-term Liabilities

District's Long Term Liabilities

	<u>Governmental Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
Bonds payable	\$26,844,243	\$28,219,996
Capital lease payable	177,549	262,437
Unamortized premium on bonds	3,749,349	2,926,343
Accreted interest on capital appreciation bonds	<u>285,266</u>	<u>404,910</u>
Total	<u>\$31,056,407</u>	<u>\$31,813,686</u>

Economic Factors and 2016-2017 Budgets and Rates

The District's elected and appointed officials considered many factors when setting the fiscal year 2016-17 budget and corresponding tax rates. The most significant of these factors was the amount of state aide available in the biennium, competition for quality staff, property valuations, and current fund balances. Employee pay increases had the greatest impact on the 2016-17 expenditure budget. Appropriations included an additional \$449,300 over the previous year for salary/wage and benefit increases which included a step increase for all teachers, paraprofessionals, and auxiliary staff; \$600 increase to the annual salary of professional staff; and an increase to core subject extra duty teaching stipends. As a result, expenditure appropriations in the 2016-17 budget were approved in the amount of \$15,184,400. Accordingly, the District has approved budgeted revenues in the amount of \$15,811,030 resulting in a potential increase to the District's current fund balance. Additionally:

- * The District's General Fund Maintenance and Operating tax rate will remain the same at \$1.170 and the District's Debt Service tax rate will increase to \$0.329. The District's total tax rate will increase to \$1.499.
- * The District's net taxable value used for the 2016-17 budget preparation increased \$15,343,799 or 6.22% from the previous year.
- * The expected increase in General Fund tax revenues is \$112,348 or 4.1% due to the increase in property values.
- * Meal prices and student charges were adjusted in order to decrease the amount of general operating funds used to supplement the food service fund.

Contacting the District's Financial Management

This financial report is designed for customers, investors, and creditors with a general overview of the District's finances and to demonstrate 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 Services department.

BASIC FINANCIAL STATEMENTS

POTEET 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	\$ 66,014
1220 Property Taxes Receivable (Delinquent)	1,066,600
1230 Allowance for Uncollectible Taxes	(106,660)
1240 Due from Other Governments	1,249,347
1290 Other Receivables, net	17,408
Capital Assets:	
1510 Land	393,268
1520 Buildings, Net	36,734,618
1530 Furniture and Equipment, Net	378,337
1550 Leased Property Under Capital Leases, Net	253,980
1000 Total Assets	40,052,912
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS	1,769,660
1700 Total Deferred Outflows of Resources	1,769,660
LIABILITIES	
2110 Accounts Payable	622,014
2160 Accrued Wages Payable	718,918
2200 Accrued Expenses	58,510
2300 Unearned Revenue	24,686
Noncurrent Liabilities	
2501 Due Within One Year	720,928
2502 Due in More Than One Year	30,335,479
2540 Net Pension Liability (District's Share)	4,966,983
2000 Total Liabilities	37,447,518
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	369,756
2600 Total Deferred Inflows of Resources	369,756
NET POSITION	
3200 Net Investment in Capital Assets	6,703,796
3890 Restricted for Other Purposes	20,006
3900 Unrestricted	(2,718,504)
3000 Total Net Position	\$ 4,005,298

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

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

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

Primary Government:

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 11,014,223	\$ 631,318	\$ 1,624,224	\$ (8,758,681)
12 Instructional Resources and Media Services	176,412	-	19,907	(156,505)
13 Curriculum and Staff Development	505,326	-	318,863	(186,463)
21 Instructional Leadership	1,199,706	-	563,916	(635,790)
23 School Leadership	1,323,574	-	65,742	(1,257,832)
31 Guidance, Counseling and Evaluation Services	572,779	-	191,712	(381,067)
32 Social Work Services	58,048	-	41,258	(16,790)
33 Health Services	199,755	-	8,776	(190,979)
34 Student (Pupil) Transportation	724,093	-	48,852	(675,241)
35 Food Services	1,306,300	204,558	942,516	(159,226)
36 Extracurricular Activities	1,017,896	78,926	26,119	(912,851)
41 General Administration	999,240	-	28,014	(971,226)
51 Facilities Maintenance and Operations	2,565,768	1,253	70,239	(2,494,276)
52 Security and Monitoring Services	126,593	-	866	(125,727)
53 Data Processing Services	549,910	-	18,674	(531,236)
61 Community Services	118,259	-	85,590	(32,669)
72 Debt Service - Interest on Long Term Debt	1,229,370	-	-	(1,229,370)
73 Debt Service - Bond Issuance Cost and Fees	139,432	-	-	(139,432)
93 Payments related to Shared Services Arrangements	428,950	-	-	(428,950)
95 Payments to Juvenile Justice Alternative Ed. Prg.	9,027	-	-	(9,027)
99 Other Intergovernmental Charges	62,204	-	-	(62,204)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 24,326,865	\$ 916,055	\$ 4,055,268	(19,355,542)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	2,668,801
DT	Property Taxes, Levied for Debt Service	563,645
SF	State Aid - Formula Grants	12,233,876
GC	Grants and Contributions not Restricted	2,170,227
IE	Investment Earnings	14,385
MI	Miscellaneous Local and Intermediate Revenue	307,430
TR	Total General Revenues	17,958,364
CN	Change in Net Position	(1,397,178)
NB	Net Position - Beginning	5,402,476
NE	Net Position--Ending	\$ 4,005,298

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

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

Data Control Codes	10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 78,261	\$ -	\$ (145,050)	\$ (66,789)
1220 Property Taxes - Delinquent	910,200	-	156,400	1,066,600
1230 Allowance for Uncollectible Taxes (Credit)	(91,020)	-	(15,640)	(106,660)
1240 Receivables from Other Governments	1,158,283	-	91,064	1,249,347
1260 Due from Other Funds	262,959	326,229	390,730	979,918
1290 Other Receivables	-	-	17,408	17,408
1000 Total Assets	<u>\$ 2,318,683</u>	<u>\$ 326,229</u>	<u>\$ 494,912</u>	<u>\$ 3,139,824</u>
LIABILITIES				
2110 Accounts Payable	\$ 152,806	\$ 326,229	\$ 84,101	\$ 563,136
2160 Accrued Wages Payable	681,796	-	37,122	718,918
2170 Due to Other Funds	715,177	-	204,741	919,918
2300 Unearned Revenues	-	-	24,686	24,686
2000 Total Liabilities	<u>1,549,779</u>	<u>326,229</u>	<u>350,650</u>	<u>2,226,658</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	760,936	-	124,256	885,192
2600 Total Deferred Inflows of Resources	<u>760,936</u>	<u>-</u>	<u>124,256</u>	<u>885,192</u>
FUND BALANCES				
Restricted Fund Balance:				
3490 Other Restricted Fund Balance	-	-	20,006	20,006
3600 Unassigned Fund Balance	7,968	-	-	7,968
3000 Total Fund Balances	<u>7,968</u>	<u>-</u>	<u>20,006</u>	<u>27,974</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 2,318,683</u>	<u>\$ 326,229</u>	<u>\$ 494,912</u>	<u>\$ 3,139,824</u>

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

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

Total Fund Balances - Governmental Funds	\$ 27,974
1 The District uses an internal service fund to charge the costs of self-insurance to appropriate functions in other funds. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.	13,925
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$50,870,566 and the accumulated depreciation was \$(14,588,712). In addition, long-term liabilities, including bonds payable of \$(28,219,996) and capital leases of \$(262,437), are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.	7,799,421
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2016 capital outlays of \$3,073,730 and debt principal payments of \$750,641 is to increase net position.	3,824,371
4 The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(1,595,381)
5 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$(4,966,983), a Deferred Resource Inflow related to TRS in the amount of \$(369,756), and a Deferred Resource Outflow related to TRS in the amount of \$1,769,660. The net effect of the GASB 68 recognitions is to decrease net position.	(3,567,079)
6 Various other reclassifications and recognitions are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable tax revenue of \$885,192 as revenue, recognizing the liabilities associated with maturing long-term debt interest of \$(58,510), recognizing accreted interest on capital appreciation bonds of \$(285,266), and bond premium of \$(3,749,349), and additional debt retired on bond refunding of \$710,000. The net effect of these reclassifications and recognitions is to decrease net position.	(2,497,933)
19 Net Position of Governmental Activities	<u>\$ 4,005,298</u>

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

POTEET 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	60 Capital Projects	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 3,014,385	\$ 1,886	\$ 1,473,135	\$ 4,489,406
5800 State Program Revenues	12,906,028	-	1,501,589	14,407,617
5900 Federal Program Revenues	584,803	-	3,113,971	3,698,774
5020 Total Revenues	<u>16,505,216</u>	<u>1,886</u>	<u>6,088,695</u>	<u>22,595,797</u>
EXPENDITURES:				
Current:				
0011 Instruction	8,080,670	-	1,804,683	9,885,353
0012 Instructional Resources and Media Services	133,333	-	13,975	147,308
0013 Curriculum and Instructional Staff Development	182,351	-	309,563	491,914
0021 Instructional Leadership	595,270	-	533,615	1,128,885
0023 School Leadership	1,175,503	-	1,990	1,177,493
0031 Guidance, Counseling and Evaluation Services	350,796	-	174,827	525,623
0032 Social Work Services	127	-	41,258	41,385
0033 Health Services	181,626	-	99	181,725
0034 Student (Pupil) Transportation	543,443	-	27,167	570,610
0035 Food Services	-	-	1,290,843	1,290,843
0036 Extracurricular Activities	876,923	-	61,533	938,456
0041 General Administration	884,696	-	-	884,696
0051 Facilities Maintenance and Operations	2,345,539	-	5,772	2,351,311
0052 Security and Monitoring Services	123,724	-	-	123,724
0053 Data Processing Services	506,807	-	-	506,807
0061 Community Services	28,179	-	84,141	112,320
Debt Service:				
0071 Principal on Long Term Debt	84,888	-	665,753	750,641
0072 Interest on Long Term Debt	7,960	-	1,243,597	1,251,557
0073 Bond Issuance Cost and Fees	-	-	264,206	264,206
Capital Outlay:				
0081 Facilities Acquisition and Construction	1,188,852	1,762,207	24,471	2,975,530
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	428,950	-	-	428,950
0095 Payments to Juvenile Justice Alternative Ed. Prg.	9,027	-	-	9,027
0099 Other Intergovernmental Charges	62,204	-	-	62,204
6030 Total Expenditures	<u>17,790,868</u>	<u>1,762,207</u>	<u>6,547,493</u>	<u>26,100,568</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,285,652)</u>	<u>(1,760,321)</u>	<u>(458,798)</u>	<u>(3,504,771)</u>
OTHER FINANCING SOURCES (USES):				
7901 Refunding Bonds Issued	-	-	7,175,000	7,175,000
7915 Transfers In	147,046	1,583,893	403,569	2,134,508
7916 Premium or Discount on Issuance of Bonds	-	-	947,780	947,780
8911 Transfers Out (Use)	(1,960,880)	-	(113,628)	(2,074,508)
8940 Payment to Bond Refunding Escrow Agent (Use)	-	-	(7,976,772)	(7,976,772)
7080 Total Other Financing Sources (Uses)	<u>(1,813,834)</u>	<u>1,583,893</u>	<u>435,949</u>	<u>206,008</u>
1200 Net Change in Fund Balances	(3,099,486)	(176,428)	(22,849)	(3,298,763)
0100 Fund Balance - September 1 (Beginning)	<u>3,107,454</u>	<u>176,428</u>	<u>42,855</u>	<u>3,326,737</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 7,968</u>	<u>\$ -</u>	<u>\$ 20,006</u>	<u>\$ 27,974</u>

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

POTEET 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	\$	(3,298,763)
The District uses internal service funds to charge the costs of self-insurance to appropriate functions in other funds. The net change of the internal service fund is reported with governmental activities. The net effect of this consolidation is to decrease net position.		(27,055)
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 of \$3,073,730 and debt principal payments of \$750,641 is to increase net position.		3,824,371
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.		(1,595,381)
The reporting of GASB 68 for the current year resulted in an increase in the Net Pension Liability of \$(1,946,914), a decrease in Deferred Resource Inflows of \$554,092, and an increase in Deferred Resource Outflows of \$1,110,609. The result of these items is to decrease net position.		(282,213)
Various other reclassifications and recognitions are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing the change in unavailable tax revenue of \$(19,090), recognizing the change in accrued interest of \$(5,685), and accreted interest of \$119,644. Also, bond premium increase of \$(823,006), and additional debt retired on bond refunding of \$710,000. The net effect of these reclassifications and recognitions is to decrease net position.		(18,137)
Change in Net Position of Governmental Activities	\$	(1,397,178)

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

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

	Governmental Activities -
	Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 132,803
Total Assets	132,803
LIABILITIES	
Current Liabilities:	
Accounts Payable	58,878
Due to Other Funds	60,000
Total Liabilities	118,878
NET POSITION	
Unrestricted Net Position	13,925
Total Net Position	\$ 13,925

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

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

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 57,701
Total Operating Revenues	57,701
OPERATING EXPENSES:	
Other Operating Costs	24,756
Total Operating Expenses	24,756
Income Before Transfers	32,945
Transfers Out	(60,000)
Change in Net Position	(27,055)
Total Net Position - September 1 (Beginning)	40,980
Total Net Position - August 31 (Ending)	\$ 13,925

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

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

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Assessments - Other Funds	\$ 57,701
Cash Payments for Other Operating Expenses	(63,614)
Net Cash Used for Operating Activities	<u>(5,913)</u>
Net Decrease in Cash and Cash Equivalents	(5,913)
Cash and Cash Equivalents at Beginning of Year	<u>138,716</u>
Cash and Cash Equivalents at End of Year	<u>\$ 132,803</u>
<u>Reconciliation of Operating Income to Net Cash</u>	
<u>Used for Operating Activities:</u>	
Operating Income:	\$ 32,945
Effect of Increases and Decreases in Current Assets and Liabilities:	
Increase (decrease) in Accounts Payable	<u>(38,858)</u>
Net Cash Used for Operating Activities	<u>\$ (5,913)</u>

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

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

	Agency Fund
ASSETS	
Cash and Cash Equivalents	\$ 100,846
Total Assets	\$ 100,846
LIABILITIES	
Accounts Payable	\$ 6,125
Due to Student Groups	94,721
Total Liabilities	\$ 100,846

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

POTEET INDEPENDENT SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Poteet 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 (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in **GASB Statement No. 76**, 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.

As of August 31, 2016, Poteet Independent School District retrospectively/prospectively applied Government Accounting Standards Board (“GASB”) Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

A. REPORTING ENTITY

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Poteet 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 a revenue is not a program revenue, it is a general revenue used to support all of the District’s functions. Taxes are always general revenues.

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

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

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

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

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The District considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible to accrual concept. 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 unearned revenues until related and authorized expenditures have been made. If balances have not been expended by the end of the project period, grantors sometimes require the District to refund all or part of the unused amount.

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

D. FUND ACCOUNTING

The District reports the following major governmental funds:

1. **The General Fund** - The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.
2. **Capital Projects Fund** - The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

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

Governmental Funds:

1. **Special Revenue Funds** - The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
2. **Debt Service Fund** - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Proprietary Funds:

3. **Internal Service Funds** - Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis. The District's Self-Insured Worker's Compensation costs are accounted for in an internal service fund.

Fiduciary Funds:

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

E. FUND BALANCE POLICY

Poteet Independent School District reports fund balance for governmental funds in classifications based primarily on the extent to which the district is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The **nonspendable** classification represents assets that will be consumed or "must be maintained in tact" and therefore will never convert to cash, such as inventories of supplies and endowments. Provisions of laws, contracts, and grants specify how fund resources can be used in the **restricted** classification. The nature of these two classifications precludes a need for a policy from the Board of Trustees. However, the Board has adopted fund balance policies for the three unrestricted classifications – committed, assigned, and unassigned.

From time to time, the Board of Trustees may commit fund balances by a majority vote in a scheduled meeting. The Board's commitment may be modified or rescinded by a majority vote in a scheduled meeting. Board commitments cannot exceed the amount of fund balance that is greater than the sum of nonspendable and restricted fund balances since that practice would commit funds that the district does not have. Commitments may be for facility expansion or renovation, program modifications, wage and salary adjustments, financial cushions and other purposes determined by the Board.

The Board of Trustees may delegate authority to specified persons or groups to make assignments of certain fund balances by a majority vote in a scheduled meeting. The Board may modify or rescind its delegation of authority by the same action. The authority to make assignments shall be in effect until modified or rescinded by the Board by majority vote in a scheduled meeting.

The Superintendent and Assistant Superintendent for Business and Finance have authorization to make assignments of fund balances.

When the District incurs expenditures that can be made from either restricted or unrestricted balances, the expenditures should be charged to restricted balances. When the District incurs expenditures that can be made from either committed, assigned, or unassigned balances, the expenditures should be charged in that order.

Restricted

Special Education	<u>\$ 20,006</u>
Total restricted	<u>20,006</u>
Unassigned	<u>7,968</u>
Total Fund Balances	<u><u>\$ 27,974</u></u>

The District shall strive to maintain a yearly fund balance in the general operating fund in which the total fund balance is 25 percent of the total operating expenditures.

As noted above, the district wide fund balance is \$27,974. Major capital asset additions are now complete as well as facility maintenance. The board has adopted a positive budget for 2016-17 to begin the process of rebuilding the fund balance.

F. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary fund types, the District considers highly liquid investments to be cash equivalents if they have a maturity or marketability of three months or less when purchased.
2. The District records purchases of supplies as expenditures.
3. The District records its investments at cost, which approximates market.
4. Unearned revenue accounted for on the balance sheet of the general and debt service funds relates to excess funds received from the Texas Education Agency over earned amounts.
5. The District provides risk management obligations through commercial insurance. General liability insurance is obtained from the Texas Association of School Boards Risk Management Fund. The District retains a risk loss for worker's compensation coverage only.

6. The preparation of financial statements in conformity with generally accepted 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.
7. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, or proprietary fund type statement of net position. Material bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method.

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

8. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the government.
9. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	30
Improvements	9 - 30
Equipment	7
Vehicles	7
Office equipment	5 - 7
Computer equipment	5

10. The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resources 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.

11. Since Internal Service Funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of the Internal Service Fund are eliminated to avoid “grossing up” the revenues and expenses of the District as a whole.
12. In addition to asset, the statement of financial position 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 that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The amount reflected on Exhibit A-1 relate to the TRS net pension liability.
13. In addition to liabilities, the statement 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 a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government wide statement of net position. The amounts reflected on Exhibit A-1 relate to the TRS net pension liability.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY DATA

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

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

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days’ public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.

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

August 31, 2016 Fund Balance	
Appropriated Budget Funds	\$ -
Nonappropriated Budget Funds	<u>20,006</u>
All Special Revenue Funds	<u>\$ 20,006</u>

5. Encumbrances for goods or purchased services are documented by purchase order or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be canceled or appropriately provided for in the subsequent year's budget. Encumbrances at August 31, 2016 are provided for in the following year.

B. EXCESS OF EXPENDITURES OVER BUDGET

As noted in Exhibit G-1, the general fund has expenditures in excess of budgeted amounts in one function of \$287,950.

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

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.

Numerous times during the year, the District had cash deposits in excess of FDIC insurance and pledged securities.

As of August 31, 2016, the following are the District's cash and cash equivalents with respective maturities and credit rating:

<u>Type of Deposit</u>	<u>Fair Value</u>	<u>Maturity in Less than 1 Year</u>	<u>Maturity in 1-10 Years</u>	<u>Maturity in Over 10 Years</u>	<u>Credit Rating</u>
Cash	\$ 164,020	\$ 164,020	\$ -	\$ -	N/A
Money Market Accounts	355	355	-	-	N/A
Investment Pools					
TexPool	<u>135</u>	<u>135</u>	<u>-</u>	<u>-</u>	AAAm
Total Cash and Cash Equivalents	<u>\$ 164,510</u>	<u>\$ 164,510</u>	<u>\$ -</u>	<u>\$ -</u>	

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

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

The investment pools used by the District are organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. The investment pools are public funds investment pools created to provide a safe environment for the placement of local government funds in authorized short-term investment.

The District's investment in investment pools, which are exempt from regulation by the Securities and Exchange Commission, have as one of their objectives the maintenance of stable net asset value of \$1. The book value of the position in the pools is the same as the number of the shares in each pool; the market value of a share should approximately equal the book value of a share.

Additional policies and contractual provisions governing deposits and investments of Medina Valley 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 to those allowed by Government Code 2256. As of August 31, 2016, the District's investments were limited to investment pools.

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's custodian and hand them over to the District or its designated agent. All of the securities are held by the District's agent.

Concentration of Credit Risk To limit the risk of loss, the District's investment portfolio is diversified in terms of investment instruments, maturity schedule, and financial institutions.

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District's investment portfolio has various maturities.

Foreign Currency Risk for Investment The District has no foreign currency investments.

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

As of August 31, 2016, Poteet Independent School District has no investments measured at fair value or Net Asset Value (NAV) per Share (or its equivalent).

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are collected based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General 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.

D. INTERFUND BALANCES AND TRANSFERS

Interfund balances at August 31, 2016, consisted of the following amounts:

Due to General Fund From:

Debt Service Fund	\$ 90,000
Special Revenue Fund	88,159
Intrafund	24,800
Proprietary Fund	<u>60,000</u>
	<u>\$ 262,959</u>

Due to Capital Projects Fund From:

General Fund	\$ 326,229
	<u>\$ 326,229</u>

Due to Other Funds From:

General Fund	\$ 364,148
Intrafund	<u>26,582</u>
	<u>\$ 390,730</u>

Transfer from General Fund To:

Debt Service Fund	\$ 87,844
Capital Projects Fund	1,583,893
Special Revenue Funds	<u>289,143</u>
	<u>\$ 1,960,880</u>

Transfer from Other Funds To:

General Fund	\$ 87,046
Intrafund	<u>26,582</u>
	<u>\$ 113,628</u>

Transfer from Proprietary Fund To:

General Fund	\$ 60,000
	<u>\$ 60,000</u>

Interfund balances and transfers are in support of operations of the various funds.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2016 were as follows:

	<u>Property Taxes</u>	<u>Other Governments</u>	<u>Due From Other Funds</u>	<u>Other Receivables</u>	<u>Total Receivables</u>
Governmental Activities:					
General Fund	\$ 910,200	\$ 1,158,283	\$ 262,959	\$ -	\$ 2,331,442
Capital Projects Fund	-	-	326,229	-	326,229
Nonmajor Governmental Funds	<u>156,400</u>	<u>91,064</u>	<u>390,730</u>	<u>17,408</u>	<u>655,602</u>
Total - Governmental Activities	<u>\$ 1,066,600</u>	<u>\$ 1,249,347</u>	<u>\$ 979,918</u>	<u>\$ 17,408</u>	<u>\$ 3,313,273</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ 106,660</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 106,660</u>

Payables at August 31, 2016 were as follows:

	<u>Accounts Payable</u>	<u>Salaries and Benefits</u>	<u>Due To Other Funds</u>	<u>Total Payables</u>
Governmental Activities:				
General Fund	\$ 152,806	\$ 681,796	\$ 715,177	\$ 1,549,779
Capital Projects Fund	326,229	-	-	326,229
Nonmajor Gov. Funds	<u>84,101</u>	<u>37,122</u>	<u>204,741</u>	<u>325,964</u>
Total - Gov. Activities	<u>\$ 563,136</u>	<u>\$ 718,918</u>	<u>\$ 919,918</u>	<u>\$ 2,201,972</u>
Amounts not scheduled for payment during the subsequent year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Proprietary Fund Activities	<u>\$ 58,878</u>	<u>\$ -</u>	<u>\$ 60,000</u>	<u>\$ 118,878</u>

F. CAPITAL ASSET ACTIVITY

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

	Primary Government			
	<u>Beginning Balance</u>	<u>Additions Reclassification</u>	<u>Retirements Reclassification</u>	<u>Ending Balance</u>
Governmental activities:				
Land	\$ 393,268	\$ -	\$ -	\$ 393,268
Buildings and improvements	40,090,780	10,295,475	-	50,386,255
Construction in progress	7,252,981	-	(7,252,981)	-
Property under capital lease	355,572	-	-	355,572
Equipment	<u>2,777,965</u>	<u>31,236</u>	<u>-</u>	<u>2,809,201</u>
Total at historical cost	<u>50,870,566</u>	<u>10,326,711</u>	<u>(7,252,981)</u>	<u>53,944,296</u>
Less accumulated depreciation				
Buildings and improvements	(12,287,932)	(1,363,705)	-	(13,651,637)
Property under capital lease	(50,796)	(50,796)	-	(101,592)
Equipment	<u>(2,249,984)</u>	<u>(180,880)</u>	<u>-</u>	<u>(2,430,864)</u>
Total accumulated depreciation	<u>(14,588,712)</u>	<u>(1,595,381)</u>	<u>-</u>	<u>(16,184,093)</u>
Governmental activities capital assets, net	<u>\$36,281,854</u>	<u>\$ 8,731,330</u>	<u>\$ (7,252,981)</u>	<u>\$37,760,203</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 880,529
Instructional Resources & Media Services	24,985
Curriculum & Instructional Staff Development	625
Instructional Leadership	25,457
School Leadership	95,587
Guidance, Counseling & Evaluation Services	26,977
Social Work Services	14,829
Health Services	10,793
Student (Pupil) Transportation	139,701
Food Services	2,675
Cocurricular/Extracurricular Activities	59,080
General Administration	93,070
Plant Maintenance and Operations	188,548
Security and Monitoring	1,168
Data Processing Services	29,365
Community Services	<u>1,992</u>
Total depreciation expense	<u>\$ 1,595,381</u>

G. BONDS PAYABLE

Bonded indebtedness of the District is reflected in the Statement of Net Position and current requirements for the principal and interest expenditures are accounted for in the Debt Service Fund. The bonds mature serially through the year 2042, with interest rates of 2.00% to 5.50%.

A summary of changes in general long-term debt for the year ended August 31, 2016 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Amounts Outstanding 9/1/15	Issued	Retired/ Refunded	Amounts Outstanding 8/31/16	Due Within One Year
Unlimited Tax School Building Bonds - Series 2002	4.15% - 5.50%	\$ 450,000	\$ -	\$ 335,000	\$ -	\$ 335,000	\$ -	\$ -
Unlimited Tax School Building & Refunding Bonds - Series 2006	3.95% - 4.40%	9,109,996	269,157	7,854,996	-	7,745,753	109,243	58,477
Unlimited Tax School Building Bonds, Series 2012	2.00% - 5.00%	20,840,000	927,375	20,030,000	-	420,000	19,610,000	430,000
Unlimited Tax Refunding Bonds - Series 2015	2.00% - 3.50%	2,240,000	47,065	-	2,240,000	50,000	2,190,000	105,000
Unlimited Tax Refunding Bonds - Series 2016	2.00% - 4.00%	4,935,000	-	-	<u>4,935,000</u>	-	<u>4,935,000</u>	<u>40,000</u>
Totals			<u>\$ 1,243,597</u>	28,219,996	7,175,000	8,550,753	26,844,243	<u>\$ 633,477</u>
Unamortized Premium on Bonds, Series 2012				2,926,343		108,383	2,817,960	
Unamortized Premium on Bonds, Series 2015				-	196,566	9,821	186,745	
Unamortized Premium on Bonds, Series 2016				-	751,214	6,570	744,644	
Accreted Interest on Capital Appreciation Bonds, Series 2006				<u>404,910</u>	<u>24,603</u>	<u>144,247</u>	<u>285,266</u>	
Total				<u>\$31,551,249</u>	<u>\$ 8,147,383</u>	<u>\$ 8,819,774</u>	<u>\$30,878,858</u>	

Bond payable requirements are as follows:

Year Ended August 31	Principal	Interest	Total Requirements
2017	\$ 633,477	\$ 1,329,893	\$ 1,963,370
2018	655,766	1,307,484	1,963,250
2019	815,000	1,143,375	1,958,375
2020	850,000	1,118,075	1,968,075
2021	875,000	1,087,875	1,962,875
2022-2026	4,875,000	4,931,750	9,806,750
2027-2031	5,880,000	3,841,950	9,721,950
2032-2036	5,435,000	2,513,050	7,948,050
2037-2041	5,545,000	1,178,500	6,723,500
2042	<u>1,280,000</u>	<u>64,000</u>	<u>1,344,000</u>
Total	<u>\$26,844,243</u>	<u>\$18,515,952</u>	<u>\$45,360,195</u>

On December 9, 2015, the District issued \$2,290,000 of Unlimited Tax Refunding Bonds, Series 2015. The proceeds of the bonds were used for refunding certain maturities of the 2002 and 2006 Series Bonds. The Series 2002 maturities of August 15, 2016 through August 15, 2032 totaling \$335,000, and the Series 2006 maturities of August 15, 2017 through August 15, 2026 totaling \$1,955,000, with an average interest rate of 4.276% were refunded by the 2015 Series Bonds with an average interest rate of 3.290%. The cash flow savings to the District as a result of this refunding was \$309,630. The net present value savings is \$246,294. The proceeds of the refunding bonds were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for certain debt service payments on the Series 2002 and 2006 bonds through 2032. As a result, those portions of the Series 2002 and 2006 Bonds were considered defeased and the liability for those bonds has been removed from the District's long-term debt account group. The defeased Series 2002 and 2006 bonds are callable August 15, 2016.

On July 27, 2016, the District issued \$4,935,000 of Unlimited Tax Refunding Bonds, Series 2016. The proceeds of the bonds were used for refunding certain maturities 2006 Series Bonds. The Series 2006 maturities of August 15, 2017 through August 15, 2036 totaling \$5,595,000, with an average interest rate of 4.317% were refunded by the 2016 Series Bonds with an average interest rate of 3.923%. The cash flow savings to the District as a result of this refunding was \$1,258,781. The net present value savings is \$972,132. The proceeds of the refunding bonds were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for certain debt service payments on the Series 2002 and 2006 bonds through 2036. As a result, those portions of the 2006 Bonds were considered defeased and the liability for those bonds has been removed from the District's long-term debt account group. The defeased Series 2006 bonds are callable August 31, 2016.

There are a number of limitations and restrictions contained in the general obligation bond indentures. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2016.

H. CAPITAL LEASES

On January 10, 2015, the District entered into a capital lease agreement with Santander Bank, N.A. for the purchase of three buses which is authorized under the code section 34.009 of the Texas Education Code. Also, on January 12, 2015, the District entered into a capital lease agreement with Ford Motor Credit for the purchase of four trucks. Capital leases are reflected in the Statement of Net Position, and current requirements for principal and interest expenditures are accounted for in the General Fund.

A Schedule of changes in capital leases payable is as follows:

	Date of Issue	Interest Rate	Maturity	Amounts Outstanding 9/1/2015	Issued Current Year	Retired Current Year	Amounts Outstanding 8/31/2016	Due Within One Year
3 Buses	1/10/2015	2.4%	2/15/2018	\$ 203,090	\$ -	\$ 66,100	\$ 136,990	\$ 67,686
4 Trucks	1/12/2015	5.2%	1/12/2018	<u>59,347</u>	<u>-</u>	<u>18,788</u>	<u>40,559</u>	<u>19,765</u>
				<u>\$ 262,437</u>	<u>\$ -</u>	<u>\$ 84,888</u>	<u>\$ 177,549</u>	<u>\$ 87,451</u>

Interest paid in the current year was \$7,960.

Capital lease requirements are as follows:

Year Ended <u>August 31</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2017	\$ 87,451	\$ 5,397	\$ 92,848
2018	<u>90,098</u>	<u>2,751</u>	<u>92,849</u>
Total	<u>\$ 177,549</u>	<u>\$ 8,148</u>	<u>\$ 185,697</u>

I. LONG-TERM DEBT

Following is a summary of changes in long-term liabilities for the year ended August 31, 2016:

	<u>Balance</u> <u>9/1/15</u>	<u>Additions</u>	<u>Retirement</u>	<u>Balance</u> <u>8/31/16</u>	<u>Due Within</u> <u>One Year</u>
Bonds payable	\$28,219,996	\$ 7,175,000	\$ 8,550,753	\$26,844,243	\$ 633,477
Capital Lease payable	<u>262,437</u>	<u>-</u>	<u>84,888</u>	<u>177,549</u>	<u>87,451</u>
Total	28,482,433	7,175,000	8,635,641	27,021,792	<u>\$ 720,928</u>
Unamortized Bond Premium	2,926,343	947,780	124,774	3,749,349	
Accredited Interest on Capital Appreciation Bonds	<u>404,910</u>	<u>24,603</u>	<u>144,247</u>	<u>285,266</u>	
Totals	<u>\$31,813,686</u>	<u>\$ 8,147,383</u>	<u>\$ 8,904,662</u>	<u>\$31,056,407</u>	

J. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

The State of Texas has created a minimum personal leave program consisting of five days per year leave with no limit on accumulation and transferability among districts for every teacher regularly employed in Texas public schools.

Each district's local Board of Education is required to establish a leave plan. Local school districts may provide additional leave beyond the state minimum. Poteet Independent School District does provide up to an additional seven days per year. Personal leave is not vested, therefore, upon resignation, termination or nonrenewal of contract, accumulated personal leave is not paid.

K. DEFINED BENEFIT PENSION PLAN

Plan Description. The Poteet 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, Sec. 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	<u>(128,538,706,212)</u>
Net Pension Liability	<u>\$ 35,348,668,960</u>
Net Position as percentage of Total Pension Liability	78.43%

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 rates for fiscal years 2016 and 2017.

	<u>Contribution Rates</u>	
	<u>2015</u>	<u>2016</u>
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Poteet ISD 2016 Employer Contributions	\$	408,903
Poteet ISD 2016 Member Contributions		874,699
Poteet ISD 2015 NECE On-Behalf Contributions		570,997

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 sources, a privately sponsored source, from non-educational and general, or local funds.

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

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

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	8.0%
Long-term expected Investment Rate of Return	8.0%
Inflation	2.5%
Salary Increases Including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

The actuarial methods and assumptions are based primarily 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 8.0%. 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	Long-Term Expected Geometric Rate of Return	Expected Contribution to Long-Term Portfolio Returns*
Global Equity			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global 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%)	Discount Rate (8%)	1% Increase in Discount Rate (9%)
Poteet ISD's proportionate share of the net pension liability:	<u>\$7,782,326</u>	<u>\$4,966,983</u>	<u>\$2,621,977</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2015, Poteet Independent School District reported a liability of \$1,189,200 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Poteet Independent School District. The amount recognized by Poteet Independent School District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with Poteet Independent School District were as follows:

District's proportionate share of the collective net pension liability	\$ 4,966,983
State's proportionate share that is associated with the District	<u>6,814,488</u>
Total	<u>\$11,781,471</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 .000140514% which was an increase of .000027451% 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 terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

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

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

For the year ended August 31, 2016, Poteet Independent School District recognized pension expense of \$970,955 and revenue of \$570,997 for support provided by the State in the Government-wide Statement of Activities.

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

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 38,844	\$ 190,886
Changes in actuarial assumptions	163,263	177,200
Differences between projected and actual investment earnings	530,965	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	627,685	1,670
Contributions paid to TRS subsequent to the measurement date	<u>408,903</u>	<u>-</u>
Total	<u>\$ 1,769,660</u>	<u>\$ 369,756</u>

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

<u>Year Ended</u> <u>August 31</u>	<u>Pension Expense</u> <u>Amount</u>
2017	\$ 159,631
2018	159,631
2019	159,631
2020	390,395
2021	82,159
Thereafter	39,554

L. MEDICARE PART D - ON BEHALF PAYMENTS

The Medicare Prescription Drug, Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Payments made on behalf of Poteet Independent School District for fiscal years 2014, 2015, and 2016 were \$32,266, \$48,141, and \$47,465, respectively.

M. SCHOOL DISTRICT RETIREE HEALTH PLAN

Plan Description. - The Poteet Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care 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 Teacher Retirement System of Texas issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Website at www.trs.state.tx.us under the TRS Publications heading, by calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 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						
	<u>Active Member</u>		<u>State</u>		<u>School District</u>	
<u>Year</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
2016	.65%	\$ 78,967	1.0%	\$ 121,488	.55%	\$ 66,818
2015	.65%	\$ 77,319	1.0%	\$ 118,952	.55%	\$ 65,426
2014	.65%	\$ 76,864	1.0%	\$ 118,253	.55%	\$ 65,039

N. WORKERS COMPENSATION PROGRAM

During the year ended August 31, 2016, employees of the Poteet Independent School District were covered by a self-funded workers' compensation program. All administrative cost were paid to a third party administrator acting on behalf of the District. The contract between the Poteet Independent School District and the Administrator is renewable September 1, 2016 and terms of coverage and cost are included in the contractual provisions.

The District, through a self-funded program was protected with a specific retention limit of \$300,000 and a \$5,000,000 aggregate limit through Safety National Casualty Co., a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. The \$55,525 in claims liability at August 31, 2016, has been provided for in these financial statements.

Changes in the balances of claims liabilities during the past year are as follows:

	<u>Year Ended</u> <u>August 31, 2016</u>	<u>Year Ended</u> <u>August 31, 2015</u>
Unpaid claims, beginning of the year	\$ 97,736	\$ 57,371
Incurred claims (including IBNR'S)	24,756	104,809
Claim Payments	<u>(66,967)</u>	<u>(64,444)</u>
Unpaid claims, end of fiscal year	<u>\$ 55,525</u>	<u>\$ 97,736</u>

O. GENERAL FUND FEDERAL SOURCE REVENUES

Federally financed programs are generally accounted for in the Special Revenue Funds of the District, except for certain federal programs which are accounted for in the General Fund as prescribed by the TEA. The District recognized in the General Fund such revenues for the year ended August 31, 2016, from various federal sources as follows:

<u>Program or Source</u>	<u>CFDA Number</u>	<u>Amount</u>
SHARS		\$ 516,057
Indirect Cost:		
Career and Technical	84.048	967
ESEA, Title I	84.010A	25,577
ESEA, Title II, Part A	84.367A	3,474
ESEA, Title IV, Part B	84.287	<u>38,728</u>
Total		<u>\$ 584,803</u>

P. LITIGATION

The District is involved in litigation in the normal course of business. There is no provision made in these financial statements regarding any legal matters.

Q. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

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

R. UNEARNED REVENUE

Unearned revenue at year end consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service</u>	<u>Total</u>
State Entitlements	\$ -	\$ 23,481	\$ 1,205	\$ 24,686
Total Unearned Revenue	<u>\$ -</u>	<u>\$ 23,481</u>	<u>\$ 1,205</u>	<u>\$ 24,686</u>

S. RECEIVABLES FROM OTHER GOVERNMENTS

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

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Other</u>	<u>Total</u>
General	\$ 792,757	\$ 360,804	\$ 4,722	\$ 1,158,283
Debt Service	-	-	-	-
Special Revenue	<u>29,355</u>	<u>61,709</u>	-	<u>91,064</u>
Total	<u>\$ 822,112</u>	<u>\$ 422,513</u>	<u>\$ 4,722</u>	<u>\$ 1,249,347</u>

T. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Property Taxes	\$ 2,682,694	\$ -	\$ 568,842	\$ -	\$ 3,251,536
Penalties, Interest and Other Tax-related Income	204,793	-	42,068	-	246,861
Investment Income	9,862	-	2,637	1,886	14,385
Food Sales	-	204,558	-	-	204,558
Enterprising Activities	78,621	60,874	-	-	139,495
Other	<u>38,415</u>	<u>594,156</u>	<u>-</u>	<u>-</u>	<u>632,571</u>
Total	<u>\$ 3,014,385</u>	<u>\$ 859,588</u>	<u>\$ 613,547</u>	<u>\$ 1,886</u>	<u>\$ 4,489,406</u>

U. RISK MANAGEMENT

Auto, Liability, and/or Property Programs

During the year ended August 31, 2016, Poteet Independent School District participated in the following TASB Risk Management Fund (the Fund) programs:

- Auto Liability
- Auto Physical Damage
- General Liability
- Legal Liability
- Property

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

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability and Property programs. The terms and limits of the stop-loss program vary by line of coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2016, the Fund anticipates that Poteet Independent School District has no additional liability beyond the contractual obligations for payment of contributions.

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

Unemployment Compensation Pool

During the year ended August 31, 2016, Poteet Independent School District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions on the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund’s Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore there is no need for specific or aggregated stop loss coverage for the Unemployment Compensation pool. For the year ended August 31, 2016, the Fund anticipates that Poteet Independent School District has no additional liability beyond the contractual obligation for payment of contribution.

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

W. INTERLOCAL AGREEMENT

The District is the fiscal agent for a Interlocal Agreement which provides special education life skills to member districts. In addition to the District, other member districts include Jourdanton Independent School District, Charlotte Independent School District, and McMullen County Independent School District. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. The District has accounted for the fiscal agent’s activities in Special Revenue Fund No. 437 Special Education. Contributions are summarized below:

Poteet I.S.D.	\$ 288,000
Jourdanton I.S.D.	205,578
Charlotte I.S.D.	79,500
McMullen County I.S.D.	<u>21,078</u>
	<u>\$ 594,156</u>

X. SUBSEQUENT EVENT

On September 7, 2016, the board of trustees approved Maintenance Tax Note, Series 2016, up to \$700,000. The note has a final maturity of August 31, 2017 with an interest rate of 3.21%. As of November 3, 2016 the balance was \$350,000.

REQUIRED SUPPLEMENTARY INFORMATION

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

EXHIBIT G-1

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 3,473,307	\$ 3,524,807	\$ 3,014,385	\$ (510,422)
5800	State Program Revenues	12,349,169	12,349,169	12,906,028	556,859
5900	Federal Program Revenues	135,000	135,000	584,803	449,803
5020	Total Revenues	15,957,476	16,008,976	16,505,216	496,240
EXPENDITURES:					
Current:					
0011	Instruction	7,994,406	8,628,696	8,080,670	548,026
0012	Instructional Resources and Media Services	94,534	135,134	133,333	1,801
0013	Curriculum and Instructional Staff Development	171,641	185,891	182,351	3,540
0021	Instructional Leadership	569,838	595,538	595,270	268
0023	School Leadership	1,195,335	1,175,635	1,175,503	132
0031	Guidance, Counseling and Evaluation Services	360,371	355,071	350,796	4,275
0032	Social Work Services	-	410	127	283
0033	Health Services	175,382	181,832	181,626	206
0034	Student (Pupil) Transportation	613,695	613,695	543,443	70,252
0035	Food Services	-	35,833	-	35,833
0036	Extracurricular Activities	816,035	911,202	876,923	34,279
0041	General Administration	819,593	897,743	884,696	13,047
0051	Facilities Maintenance and Operations	1,808,616	2,423,016	2,345,539	77,477
0052	Security and Monitoring Services	101,567	128,267	123,724	4,543
0053	Data Processing Services	571,101	590,368	506,807	83,561
0061	Community Services	27,986	28,186	28,179	7
Debt Service:					
0071	Principal on Long Term Debt	89,763	85,763	84,888	875
0072	Interest on Long Term Debt	8,000	8,000	7,960	40
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	1,225,000	1,188,852	36,148
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	131,000	141,000	428,950	(287,950)
0095	Payments to Juvenile Justice Alternative Ed. Prg.	8,000	10,000	9,027	973
0099	Other Intergovernmental Charges	70,000	70,000	62,204	7,796
6030	Total Expenditures	15,626,863	18,426,280	17,790,868	635,412
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	330,613	(2,417,304)	(1,285,652)	1,131,652
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	-	147,046	147,046
8911	Transfers Out (Use)	(515,216)	(2,348,682)	(1,960,880)	387,802
7080	Total Other Financing Sources (Uses)	(515,216)	(2,348,682)	(1,813,834)	534,848
1200	Net Change in Fund Balances	(184,603)	(4,765,986)	(3,099,486)	1,666,500
0100	Fund Balance - September 1 (Beginning)	3,107,454	3,107,454	3,107,454	-
3000	Fund Balance - August 31 (Ending)	\$ 2,922,851	\$ (1,658,532)	\$ 7,968	\$ 1,666,500

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

EXHIBIT G-2

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.000140514%	0.000113063%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 4,966,983	\$ 3,020,069
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	6,814,488	5,697,337
Total	<u>\$ 11,781,471</u>	<u>\$ 8,717,406</u>
District's Covered-Employee Payroll	\$ 11,781,471	\$ 11,826,254
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	41.76%	25.54%
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."

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

EXHIBIT G-3

	2016	2015
Contractually Required Contribution	\$ 408,903	\$ 416,037
Contribution in Relation to the Contractually Required Contribution	(408,903)	(416,037)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
District's Covered-Employee Payroll	\$ 12,148,593	\$ 11,895,469
Contributions as a Percentage of Covered-Employee Payroll	3.37%	3.50%

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

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

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

Economic Assumptions

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

Mortality Assumptions

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

Other Demographic Assumptions

8. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.

10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

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.

COMBINING AND OTHER STATEMENTS

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

Data Control Codes	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	240 National Breakfast and Lunch Program	242 Summer Feeding Program	
ASSETS					
1110	Cash and Cash Equivalents	\$ (11,290)	\$ -	\$ (81,354)	\$ 26,582
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes (Credit)	-	-	-	-
1240	Receivables from Other Governments	13,090	-	32,765	-
1260	Due from Other Funds	-	-	124,878	-
1290	Other Receivables	-	-	555	-
1000	Total Assets	<u>\$ 1,800</u>	<u>\$ -</u>	<u>\$ 76,844</u>	<u>\$ 26,582</u>
LIABILITIES					
2110	Accounts Payable	\$ 1,800	\$ -	\$ 54,125	\$ -
2160	Accrued Wages Payable	-	-	22,719	-
2170	Due to Other Funds	-	-	-	26,582
2300	Unearned Revenues	-	-	-	-
2000	Total Liabilities	<u>1,800</u>	<u>-</u>	<u>76,844</u>	<u>26,582</u>
DEFERRED INFLOWS OF RESOURCES					
2601	Unavailable Revenue - Property Taxes	-	-	-	-
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted Fund Balance:					
3490	Other Restricted Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,800</u>	<u>\$ -</u>	<u>\$ 76,844</u>	<u>\$ 26,582</u>

244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	265 Title IV, B Community Learning	287 Education Jobs Fund	288 Improvement of Education Library	289 Summer School LEP	294 SSA Head Start	410 State Textbook Fund
\$ (72)	\$ (15,782)	\$ (18,652)	\$ -	\$ -	\$ 1,113	\$ 4,014	\$ (73,064)
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
72	15,782	-	-	-	-	-	-
-	-	18,652	-	-	-	-	94,419
-	-	-	-	-	-	10,389	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,113</u>	<u>\$ 14,403</u>	<u>\$ 21,355</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,574
-	-	-	-	-	-	14,403	-
-	-	-	-	-	1,113	-	-
-	-	-	-	-	-	-	15,781
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,113</u>	<u>14,403</u>	<u>21,355</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,113</u>	<u>\$ 14,403</u>	<u>\$ 21,355</u>

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

Data Control Codes	429 Pre-K Grant Program	437 Special Education	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds	
ASSETS					
1110	Cash and Cash Equivalents	\$ (45)	\$ (71,289)	\$ 88,038	\$ (151,801)
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes (Credit)	-	-	-	-
1240	Receivables from Other Governments	29,355	-	-	91,064
1260	Due from Other Funds	-	91,295	-	329,244
1290	Other Receivables	-	-	-	10,944
1000	Total Assets	<u>\$ 29,310</u>	<u>\$ 20,006</u>	<u>\$ 88,038</u>	<u>\$ 279,451</u>
LIABILITIES					
2110	Accounts Payable	\$ 21,610	\$ -	\$ 992	\$ 84,101
2160	Accrued Wages Payable	-	-	-	37,122
2170	Due to Other Funds	-	-	87,046	114,741
2300	Unearned Revenues	7,700	-	-	23,481
2000	Total Liabilities	<u>29,310</u>	<u>-</u>	<u>88,038</u>	<u>259,445</u>
DEFERRED INFLOWS OF RESOURCES					
2601	Unavailable Revenue - Property Taxes	-	-	-	-
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted Fund Balance:					
3490	Other Restricted Fund Balance	-	20,006	-	20,006
3000	Total Fund Balances	<u>-</u>	<u>20,006</u>	<u>-</u>	<u>20,006</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 29,310</u>	<u>\$ 20,006</u>	<u>\$ 88,038</u>	<u>\$ 279,451</u>

599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ 6,751	\$ (145,050)
156,400	156,400
(15,640)	(15,640)
-	91,064
61,486	390,730
6,464	17,408
<u>\$ 215,461</u>	<u>\$ 494,912</u>
\$ -	\$ 84,101
-	37,122
90,000	204,741
1,205	24,686
<u>91,205</u>	<u>350,650</u>
124,256	124,256
<u>124,256</u>	<u>124,256</u>
-	20,006
<u>-</u>	<u>20,006</u>
<u>\$ 215,461</u>	<u>\$ 494,912</u>

POTEET 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	212 ESEA Title I Part C Migrant	240 National Breakfast and Lunch Program	242 Summer Feeding Program
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ 204,293	\$ 265
5800 State Program Revenues	-	-	6,026	-
5900 Federal Program Revenues	<u>680,961</u>	<u>3,799</u>	<u>926,713</u>	<u>15,549</u>
5020 Total Revenues	<u>680,961</u>	<u>3,799</u>	<u>1,137,032</u>	<u>15,814</u>
EXPENDITURES:				
Current:				
0011 Instruction	189,851	-	-	-
0012 Instructional Resources and Media Services	-	-	-	-
0013 Curriculum and Instructional Staff Development	298,212	-	-	-
0021 Instructional Leadership	140,425	-	-	-
0023 School Leadership	1,990	-	-	-
0031 Guidance, Counseling and Evaluation Services	5,746	-	-	-
0032 Social Work Services	-	-	-	-
0033 Health Services	-	-	-	-
0034 Student (Pupil) Transportation	-	-	-	-
0035 Food Services	-	-	1,278,010	12,833
0036 Extracurricular Activities	-	-	-	-
0051 Facilities Maintenance and Operations	-	-	5,772	-
0061 Community Services	44,737	3,799	-	-
Debt Service:				
0071 Principal on Long Term Debt	-	-	-	-
0072 Interest on Long Term Debt	-	-	-	-
0073 Bond Issuance Cost and Fees	-	-	-	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	-	-	-
6030 Total Expenditures	<u>680,961</u>	<u>3,799</u>	<u>1,283,782</u>	<u>12,833</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>-</u>	<u>(146,750)</u>	<u>2,981</u>
OTHER FINANCING SOURCES (USES):				
7901 Refunding Bonds Issued	-	-	-	-
7915 Transfers In	-	-	315,725	-
7916 Premium or Discount on Issuance of Bonds	-	-	-	-
8911 Transfers Out (Use)	-	-	-	(26,582)
8940 Payment to Bond Refunding Escrow Agent (Use)	-	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>315,725</u>	<u>(26,582)</u>
1200 Net Change in Fund Balance	-	-	168,975	(23,601)
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>(168,975)</u>	<u>23,601</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

244 Career and Technical - Basic Grant	255 ESEA II,A Training and Recruiting	265 Title IV, B Community Learning	287 Education Jobs Fund	288 Improvement of Education Library	289 Summer School LEP	294 SSA Head Start	410 State Textbook Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	248,176
<u>23,665</u>	<u>100,533</u>	<u>954,296</u>	<u>13,975</u>	<u>210,339</u>	<u>1,113</u>	<u>183,028</u>	<u>-</u>
<u>23,665</u>	<u>100,533</u>	<u>954,296</u>	<u>13,975</u>	<u>210,339</u>	<u>1,113</u>	<u>183,028</u>	<u>248,176</u>
4,753	91,107	576,370	-	-	1,113	183,028	190,172
-	-	-	13,975	-	-	-	-
-	8,306	-	-	-	-	-	-
18,912	-	316,274	-	-	-	-	58,004
-	-	-	-	-	-	-	-
-	-	-	-	169,081	-	-	-
-	-	-	-	41,258	-	-	-
-	-	-	-	-	-	-	-
-	-	27,167	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	1,120	34,485	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>23,665</u>	<u>100,533</u>	<u>954,296</u>	<u>13,975</u>	<u>210,339</u>	<u>1,113</u>	<u>183,028</u>	<u>248,176</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

POTEET 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	429 Pre-K Grant Program	437 Special Education	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ 594,156	\$ 60,874	\$ 859,588
5800 State Program Revenues	21,655	-	-	275,857
5900 Federal Program Revenues	-	-	-	3,113,971
5020 Total Revenues	<u>21,655</u>	<u>594,156</u>	<u>60,874</u>	<u>4,249,416</u>
EXPENDITURES:				
Current:				
0011 Instruction	18,610	549,679	-	1,804,683
0012 Instructional Resources and Media Services	-	-	-	13,975
0013 Curriculum and Instructional Staff Development	3,045	-	-	309,563
0021 Instructional Leadership	-	-	-	533,615
0023 School Leadership	-	-	-	1,990
0031 Guidance, Counseling and Evaluation Services	-	-	-	174,827
0032 Social Work Services	-	-	-	41,258
0033 Health Services	-	-	99	99
0034 Student (Pupil) Transportation	-	-	-	27,167
0035 Food Services	-	-	-	1,290,843
0036 Extracurricular Activities	-	-	61,533	61,533
0051 Facilities Maintenance and Operations	-	-	-	5,772
0061 Community Services	-	-	-	84,141
Debt Service:				
0071 Principal on Long Term Debt	-	-	-	-
0072 Interest on Long Term Debt	-	-	-	-
0073 Bond Issuance Cost and Fees	-	-	-	-
Capital Outlay:				
0081 Facilities Acquisition and Construction	-	24,471	-	24,471
6030 Total Expenditures	<u>21,655</u>	<u>574,150</u>	<u>61,632</u>	<u>4,373,937</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>-</u>	<u>20,006</u>	<u>(758)</u>	<u>(124,521)</u>
OTHER FINANCING SOURCES (USES):				
7901 Refunding Bonds Issued	-	-	-	-
7915 Transfers In	-	-	-	315,725
7916 Premium or Discount on Issuance of Bonds	-	-	-	-
8911 Transfers Out (Use)	-	-	(87,046)	(113,628)
8940 Payment to Bond Refunding Escrow Agent (Use)	-	-	-	-
7080 Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(87,046)</u>	<u>202,097</u>
1200 Net Change in Fund Balance	-	20,006	(87,804)	77,576
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>87,804</u>	<u>(57,570)</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ 20,006</u>	<u>\$ -</u>	<u>\$ 20,006</u>

599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ 613,547	\$ 1,473,135
1,225,732	1,501,589
-	3,113,971
1,839,279	6,088,695
-	1,804,683
-	13,975
-	309,563
-	533,615
-	1,990
-	174,827
-	41,258
-	99
-	27,167
-	1,290,843
-	61,533
-	5,772
-	84,141
665,753	665,753
1,243,597	1,243,597
264,206	264,206
-	24,471
2,173,556	6,547,493
(334,277)	(458,798)
7,175,000	7,175,000
87,844	403,569
947,780	947,780
-	(113,628)
(7,976,772)	(7,976,772)
233,852	435,949
(100,425)	(22,849)
100,425	42,855
\$ -	\$ 20,006

POTEET INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED AUGUST 31, 2016

	BALANCE SEPTEMBER 1 2015	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2016
STUDENT ACTIVITY ACCOUNT				
Assets:				
Cash and Temporary Investments	\$ 103,188	\$ 133,540	\$ 135,882	\$ 100,846
Liabilities:				
Accounts Payable	\$ 10,981	\$ -	\$ 4,856	\$ 6,125
Due to Student Groups	92,207	133,540	131,026	94,721
Total Liabilities	\$ 103,188	\$ 133,540	\$ 135,882	\$ 100,846
TOTAL AGENCY FUNDS				
Assets:				
Cash and Temporary Investments	\$ 103,188	\$ 133,540	\$ 135,882	\$ 100,846
Liabilities:				
Accounts Payable	\$ 10,981	\$ -	\$ 4,856	\$ 6,125
Due to Student Groups	92,207	133,540	131,026	94,721
Total Liabilities	\$ 103,188	\$ 133,540	\$ 135,882	\$ 100,846

T.E.A. REQUIRED SCHEDULES

POTEET 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	\$ 134,322,244
2008	1.040000	0.085600	141,636,727
2009	1.040000	0.110000	171,961,217
2010	1.040000	0.120000	176,437,792
2011	1.040000	0.135900	177,702,146
2012	1.040000	0.129000	190,934,816
2013	1.040000	0.379000	204,418,957
2014	1.170000	0.249000	219,335,889
2015	1.170000	0.249000	232,349,682
2016 (School year under audit)	1.170000	0.249000	234,758,106
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
\$ 199,970	\$ -	\$ 12,907	\$ 443	\$ (680)	\$ 185,940
33,624	-	3,940	324	(288)	29,072
44,573	-	4,853	513	(295)	38,912
44,482	-	5,843	674	(297)	37,668
50,212	-	8,665	1,132	(483)	39,932
74,949	-	11,661	1,446	1,287	63,129
120,012	-	23,506	8,566	(1,243)	86,697
169,680	-	42,147	8,970	(368)	118,195
267,256	-	66,355	14,122	(5,499)	181,280
-	3,331,218	2,502,817	532,652	(9,974)	285,775
<u>\$ 1,004,758</u>	<u>\$ 3,331,218</u>	<u>\$ 2,682,694</u>	<u>\$ 568,842</u>	<u>\$ (17,840)</u>	<u>\$ 1,066,600</u>

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 222,000	\$ 222,000	\$ 204,293	\$ (17,707)
5800 State Program Revenues	7,000	37,533	6,026	(31,507)
5900 Federal Program Revenues	830,000	830,500	926,713	96,213
5020 Total Revenues	1,059,000	1,090,033	1,137,032	46,999
EXPENDITURES:				
0035 Food Services	1,166,243	1,292,243	1,278,010	14,233
0051 Facilities Maintenance and Operations	-	7,200	5,772	1,428
6030 Total Expenditures	1,166,243	1,299,443	1,283,782	15,661
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(107,243)	(209,410)	(146,750)	62,660
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	413,466	315,725	(97,741)
1200 Net Change in Fund Balances	(107,243)	204,056	168,975	(35,081)
0100 Fund Balance - September 1 (Beginning)	(168,975)	(168,975)	(168,975)	-
3000 Fund Balance - August 31 (Ending)	\$ (276,218)	\$ 35,081	\$ -	\$ (35,081)

POTEET 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	\$ 640,378	\$ 640,678	\$ 613,547	\$ (27,131)
5800	State Program Revenues	889,899	889,899	1,225,732	335,833
5020	Total Revenues	1,530,277	1,530,577	1,839,279	308,702
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	630,753	665,753	665,753	-
0072	Interest on Long Term Debt	1,412,039	1,255,739	1,243,597	12,142
0073	Bond Issuance Cost and Fees	3,000	265,000	264,206	794
6030	Total Expenditures	2,045,792	2,186,492	2,173,556	12,936
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(515,515)	(655,915)	(334,277)	321,638
OTHER FINANCING SOURCES (USES):					
7901	Refunding Bonds Issued	-	-	7,175,000	7,175,000
7911	Capital Related Debt Issued (Regular Bonds)	515,216	7,175,000	-	(7,175,000)
7915	Transfers In	-	26,435	87,844	61,409
7916	Premium or Discount on Issuance of Bonds	-	947,781	947,780	(1)
8940	Payment to Bond Refunding Escrow Agent (Use)	-	-	(7,976,772)	(7,976,772)
7080	Total Other Financing Sources (Uses)	515,216	8,149,216	233,852	(7,915,364)
1200	Net Change in Fund Balances	(299)	7,493,301	(100,425)	(7,593,726)
0100	Fund Balance - September 1 (Beginning)	100,425	100,425	100,425	-
3000	Fund Balance - August 31 (Ending)	\$ 100,126	\$ 7,593,726	\$ -	\$ (7,593,726)

FEDERAL SECTION

COLEMAN, HORTON & COMPANY, LLP

Certified Public Accountants

400 E. NOPAL ST
UVALDE, TEXAS 78801-5305

ROBERT O. COLEMAN, CPA
STEPHEN L. HORTON, CPA
DEBORAH V. McDONALD, CPA
DEREK L. WALKER, CPA
DUSTY R. ROUTH, CPA

830-278-6276
FAX 830-278-6868
chc@colemanhortoncpa.com

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

To the Board of Trustees
Poteet Independent School District
Poteet, Texas

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 the Poteet Independent School District, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the Poteet Independent School District's basic financial statements, and have issued our report thereon dated November 23, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, as described in the accompany schedule of findings and questioned costs that we consider to be a material weakness (2016-1).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Poteet Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We have noted the noncompliance in the Schedule of Findings and Questioned Cost listed as item 2016-1.

District's Responses to the Findings

The District's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The District's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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.

Coleman, Norton & Company, LLP

Certified Public Accountants

Uvalde, Texas

November 23, 2016

COLEMAN, HORTON & COMPANY, LLP

Certified Public Accountants

400 E. NOPAL ST
LUNDALE, TEXAS 78001-5305

ROBERT O. COLEMAN, CPA
STEPHEN L. HORTON, CPA
DEBORAH V. McDONALD, CPA
DEREK L. WALKER, CPA
DUSTY R. ROUTH, CPA

830-278-6276
FAX 830-278-6868
chc@colemanhortoncpa.com

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance and on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

To the Board of Trustees
Poteet Independent School District
Poteet, Texas

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

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

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

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

Coleman, Horton & Company, LLP

Certified Public Accountants
Uvalde, Texas
November 23, 2016

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

A. Summary of the Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Control deficiency(ies) identified? Yes No

Control deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

2. Federal Awards

Internal control over major programs:

Control deficiency(ies) identified? Yes No

Control deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 200.56 of the Uniform Guidance? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
CFDA #84.010A	ESEA, Title 1, Part A

Dollar threshold used to distinguish between type A and type B programs: \$ 750,000

Auditee qualified as low-risk auditee? Yes No

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

B. Financial Statement Findings

Finding 2016-1 - Noncompliance With Procurement Policies and Procedures

Type of Finding: Noncompliance and Material Weakness

Criteria: The District must comply with the state's compliance requirements over competitive procurement process, which is noted in Texas Education Code 44.031(a). In addition, the District's Purchasing Manual requires specific levels of procurement and supporting documentation based on the dollar amount of a purchase, which includes issuing purchase orders ("POs") and obtaining written quotes and competitive bids, among other requirements. These policies and procedures are an integral part of the District's internal control over the procurement process.

Condition: We identified exceptions to the District's procurement policies and procedures and compliance with the state's competitive procurement process.

Questioned Costs: None

Effect: The District is not in compliance with the state's competitive procurement process and the District's procurement policies and procedures; therefore, the District is not fully adhering to the District's established internal controls over procurement.

Cause: The exceptions noted appear to be the result of the District not fully adhering to the procurement policies and procedures for certain purchases made during the year, as well as not being in compliance with the state's competitive procurement process.

Recommendation: We recommend the District review the policies and procedures currently in place over procurement and provide additional training to employees to ensure compliance with such policies and procedures and compliance with the state's competitive procurement process.

View of Responsible Officials and Planned Action: The District has contacted outside consultants to review and recommend changes to the policies and procedures currently in place. Additionally, the District is planning on providing training to all employees involved in the procurement process. These actions are supervised by Mr. Andy Castillo, Superintendent at 830-742-3567.

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

Prior Year Finding:

2015-1

The National Breakfast and Lunch Program had a deficit fund balance of \$168,975 at year end.

Current Status:

The National Breakfast and Lunch Program has a fund balance of \$ -0- as of August 31, 2016.

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

Finding 2016-1 - Noncompliance With Procurement Policies and Procedures

Type of Finding: Noncompliance and Material Weakness

Criteria: The District must comply with the state's compliance requirements over competitive procurement process, which is noted in Texas Education Code 44.031(a). In addition, the District's Purchasing Manual requires specific levels of procurement and supporting documentation based on the dollar amount of a purchase, which includes issuing purchase orders ("POs") and obtaining written quotes and competitive bids, among other requirements. These policies and procedures are an integral part of the District's internal control over the procurement process.

Condition: We identified exceptions to the District's procurement policies and procedures and compliance with the state's competitive procurement process.

Questioned Costs: None

Effect: The District is not in compliance with the state's competitive procurement process and the District's procurement policies and procedures; therefore, the District is not fully adhering to the District's established internal controls over procurement.

Cause: The exceptions noted appear to be the result of the District not fully adhering to the procurement policies and procedures for certain purchases made during the year, as well as not being in compliance with the state's competitive procurement process.

Recommendation: We recommend the District review the policies and procedures currently in place over procurement and provide additional training to employees to ensure compliance with such policies and procedures and compliance with the state's competitive procurement process.

View of Responsible Officials and Planned Action: The District has contacted outside consultants to review and recommend changes to the policies and procedures currently in place. Additionally, the District is planning on providing training to all employees involved in the procurement process. These actions are supervised by Mr. Andy Castillo, Superintendent at 830-742-3567.

POTEET 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>Direct Programs</u>			
School Counseling Program	84.215E	S215E120368	\$ 210,339
Improvement of Education Library	84.215G	S215G130159	<u>13,975</u>
Total Direct Programs			<u>\$ 224,314</u>
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	16610101007906	\$ 522,756
ESEA, Title I, Part A - Priority and Focus	84.010A	16610112007906000	<u>158,205</u>
Total CFDA Number 84.010A			<u>680,961</u>
ESEA, Title I, Part C - Migratory Children	84.011	3014201602	3,799
Career and Technical - Basic Grant	84.048	16420006007906	23,665
Title IV, Pt B-21st Cent. Community Learning Cent.	84.287	166950167110033	954,296
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	16694501007906	100,533
Summer School LEP	84.369A	69551502	<u>1,113</u>
Total Passed Through State Department of Education			<u>\$ 1,764,367</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>\$ 1,988,681</u>
 U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through State Department of Education</u>			
SSA - Head Start	93.600	6065053473132	\$ 183,028
Total Passed Through State Department of Education			<u>\$ 183,028</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>\$ 183,028</u>
 U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401601	\$ 211,843
*National School Lunch Program - Cash Assistance	10.555	71301601	633,873
*National School Lunch Prog. - Non-Cash Assistance	10.555	N/A	<u>80,997</u>
Total CFDA Number 10.555			<u>714,870</u>
*Summer Feeding Program - Cash Assistance	10.559	N/A	<u>15,549</u>
Total Child Nutrition Cluster			<u>942,262</u>
Total Passed Through the State Department of Agriculture			<u>\$ 942,262</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>\$ 942,262</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 3,113,971</u></u>

*Clustered Programs.

The above amounts do not include SHARS receipts of \$516,057 and indirect costs of \$68,746, both of which are included as federal revenue in the general fund.

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

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

- For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
- The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type.

With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used for the Governmental Fund types. 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.

- 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 of Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards.
- CFDA number 10.550 pertains to food commodities distributed by USDA under the following categorical programs (as applicable): the National School Lunch Program (CFDA 10.555), the Child and Adult Care Food Program (CFDA 10.558), the Summer Food Service Program (CFDA 10.559), the Commodity Supplemental Food Program (CFDA 10.565), and the Food Distribution Program on Indian Reservations (CFDA 10.567). USDA deleted this number from the CFDA on May 6, 2008. The audit covering Poteet Independent School District fiscal year beginning September 1 2015, and future audits, will therefore identify commodity assistance by the CFDA numbers of the programs under which USDA donated the commodities.

SCHOOLS FIRST QUESTIONNAIRE

Poteet Independent School District

Fiscal Year 2016

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	No
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	\$285,266
SF11	Net Pension Assets (1920) at fiscal year-end.	-0-
SF12	Net Pension Liabilities (2540) at fiscal year-end.	\$4,966,983
SF13	Pension Expense (6147) at fiscal year-end.	\$635,193