

**POTEET INDEPENDENT SCHOOL DISTRICT**  
**Recent Events Affecting the District's Financial Condition - January 17, 2017**

- Subsequent to the issuance and delivery of the Poteet Independent School District (the "*District*") Unlimited Tax Refunding Bonds, Series 2016 (the "*Series 2016 Refunding Bonds*") on July 27, 2016, the District, on August 19, 2016, supplemented the Final Official Statement relating to the Series 2016 Refunding Bonds (the "*Supplement*") to advise that the District was pursuing the issuance of maintenance tax notes (the "*Maintenance Tax Notes*") in the approximate amount of \$750,000 via a private placement sale to address recently discovered concerns for operating cash flow requirements for fiscal year 2016-2017.
- At the time of the Supplement, the District stated that it expected its unaudited fiscal year end general fund balance at August 31, 2016 would be approximately \$219,482 as compared to its audited general fund balance on August 31, 2015 of \$3,107,454.
- The District also stated in the Supplement that it had retained a law firm (the "*Independent Counsel*") to examine the circumstances relating to the drawdown in the general fund and to determine whether remedial measures were warranted.
- The Independent Counsel conducted a thorough investigation that included document and correspondence review, including e-mail review, and also included interviews with relevant District officials as well as District and state employees. An oral report of the findings of the investigation was given to the Board of Trustees on October 5, 2016.
- The Independent Counsel found no evidence of theft or intentional misconduct relating to the drawdown in the general fund; however, the Independent Counsel did conclude that, earlier in the fiscal year, use of the general fund to pay various unbudgeted construction expenses and a lack of transparency into the financial details presented to the Board of Trustees by former District staff, hindered the Board of Trustees in recognizing potential cash flow concerns.
- The investigation also determined that the Board of Trustees was repeatedly assured that the District's budget could handle additional construction costs and change orders for certain ongoing capital projects.
- A contributing factor to the District not recognizing its actual financial condition until early August 2016 was the voluntary resignation of its prior Executive Director of Business and Operations in February 2016.
- Ultimately, the significant drawdown on the general fund during the 2015-2016 fiscal year is attributable to spending in various construction projects that were occurring during the 2015-2016 fiscal year and that have now been completed. As mentioned above, the investigation found that there was no evidence of theft or intentional misconduct relating to the drawdown in the general fund; however, expenditures not being reported in a timely manner during the 2015-2016 fiscal year led to insufficient financial details being provided to the Board of Trustees while they considered yet additional capital expenditures.
- On December 12, 2016, the Board of Trustees approved its Annual Financial Report for the Year Ended August 31, 2016 (the "*FYE 2016 Audit*"). The FYE 2016 Audit reported that the District's fiscal year end fund balance in its general fund at August 31, 2016 was \$7,968.
- The FYE 2016 Audit made a material weakness finding regarding the District's procurement policies and procedures and compliance with the state's competitive procurement process; however, the FYE 2016 Audit did not identify any particular questioned costs related to this finding. The FYE 2016 Audit recommended 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.
- Based on the budget adopted by the District for the current 2016-2017 fiscal year and the actual revenues and expenses during the first four months of such fiscal year, it is currently expected that the ending general fund balance at August 31, 2017 will be approximately \$165,000. The District issued the above described Maintenance Tax Notes in the form of a \$700,000 line of credit but has only drawn down \$350,000. The

District expects to pay the outstanding principal amount of \$350,000 of Maintenance Tax Notes prior to the end of the current fiscal year. The expected ending fund balance at August 31, 2017 of \$165,000 already takes into consideration the payment in full of the Maintenance Tax Notes. As mentioned above, the various construction projects that were occurring during the 2015-2016 fiscal year have now been completed.

- The District has taken several measures to address the deficiencies identified by the Independent Counsel and the FYE 2016 Audit. These measures include: (1) adoption of updated formal procedures regarding procurement; (2) provision to the Board of Trustees with updated monthly financial information; and (3) engaging the assistance of a financial officer of a sizeable school district in Texas and other outside professionals to periodically meet with the District's Executive Director of Business and Operations to assist in (1) instituting District wide knowledge and execution of the state's and District's policies and procedures regarding procurement, (2) financial record keeping, and (3) accurate financial reporting to the Board of Trustees.