

**FARMERSVILLE
INDEPENDENT SCHOOL DISTRICT**

Financial Report for the Year Ended

August 31, 2016

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CERTIFICATE OF BOARD

| | | |
|---|-----------------|-----------------------------|
| Farmersville Independent School District | Collin | 043-904 |
| _____ Name of School District | _____ County | _____ Co. – Dist. Number |

We, the undersigned, certify that the attached financial reports of the above named school district were reviewed and (✓) approved () disapproved for the year ended August 31, 2016, at a meeting of the Board of School Trustees of such school district on the 9 day of December, 2016.



Signature of Board Secretary



Signature of Board President

EVANS, PINGLETON and HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

8950 Gary Burns Drive, Suite D

Frisco, Texas 75034

PH 972-335-9754

FAX 972-335-9758

Independent Auditor's Report

Board of School Trustees

Members of the Board

Farmersville, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Farmersville 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 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 Farmersville 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 and budgetary comparison information on pages 3-11 and 52 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 Farmersville Independent School District's basic financial statements. The introductory section, combining and individual non-major fund financial statements, and statistical section, 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 non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major 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 introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by *Governmental Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2016, on our consideration of the Farmersville 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 Farmersville Independent School District's internal control over financial reporting and compliance.

Evans, Pingleton and Howard, PLLC

Evans, Pingleton & Howard, PLLC
Frisco, TX
November 29, 2016

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis For the Year Ended August 31, 2016

This section of Farmersville Independent School District's annual financial report presents our discussion and analysis of the District's financial performance during the year ended August 31, 2016. Please read it in conjunction with the district's basic financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- At August 31, 2016, the District's total net position was \$25,927,228, an increase of \$2,370,905 over the previous year.
- General revenues accounted for \$15,469,444. Program-specific revenues in the form of charges for services and grants and contributions accounted for \$2,406,068.
- The District had \$15,504,607 in expenses related to governmental activities; of which \$2,406,068 of these expenses were offset by program-specific charges for services or grants and contributions.
- The General Fund reported an ending fund balance of \$10,783,178. This was a increase in the General Fund balance from the prior year in the amount of \$1,853,188. The unassigned General Fund balance increased \$1,857,377 from the prior year.
- The District did not issue any new bonds during the year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

- The first two statements area 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 funds statements focus on how general government services were financed in the short-term as well as what remains for future spending.
- Proprietary fund statements offer short-term and long-term financial information about the activities the government operates like businesses, such as the print shop.
- 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 basic financial statement also includes notes that explain some of the information in the basic 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 basic financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another. Figure A-2 summarizes the major features of the District's basic financial statements including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT
 Management's Discussion and Analysis
 For the Year Ended August 31, 2016

Figure A-1

Required Components of the District's Annual Financial Report

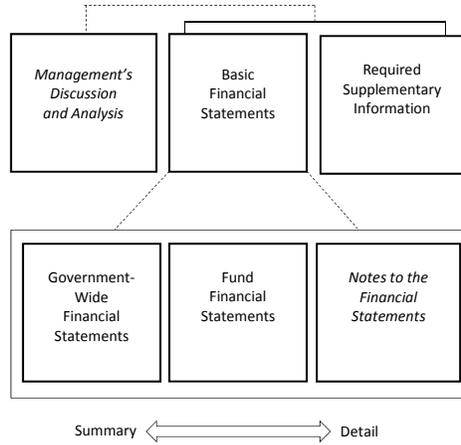


Figure A-2

Major Features of the District's Government-wide and Fund Financial Statements

| Types of Statements | District-wide | Governmental Funds | Proprietary Funds | Fiduciary Funds |
|---|--|--|--|---|
| <i>Scope</i> | Entire Agency's government (except fiduciary funds) and the Agency's component units | The activities of the district that are not proprietary or fiduciary | Activities the district operates similar to private businesses: self-insurance | Instances in which the district is the trustee or agent for someone else's resources |
| <i>Required financial statements</i> | <ul style="list-style-type: none"> • Statement of net position • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures & changes in fund balances | <ul style="list-style-type: none"> • Statement of net position • Statement of revenues, expenses and changes in fund net position • Statement of cash flows | <ul style="list-style-type: none"> • Statement of fiduciary net position • Statement of changes in fiduciary net position |
| <i>Accounting basis and measurement focus</i> | Accrual accounting and economic resources focus | Modified accrual accounting and current financial resources focus | Accrual accounting and economic resources focus | Accrual accounting and economic resources focus |
| <i>Type of asset/liability information</i> | All assets and liabilities, both financial and capital, short-term and long-term | Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included | All assets and liabilities, both financial and capital, and short-term and long-term | All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can |
| <i>Type of inflow/outflow information</i> | All revenues and expenses during year, regardless of when cash is received or paid | Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter | All revenues and expenses during year, regardless of when cash is received or paid | All revenues and expenses during year, regardless of when cash is received or paid |

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis
For the Year Ended August 31, 2016

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 and liabilities, is one way to measure the District's financial health or position.

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

The government-wide financial statements of the District are divided into two categories:

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 utilizing certain taxes and grants.

The District has the following types 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 the government-wide statements, we provide additional information on the subsequent page that explains the relationship (or differences) between them.

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

For the Year Ended August 31, 2016

- *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-term and short-term financial information. Our enterprise funds are presented in aggregate and account for activities such as concessions, day care, and yearbook sales. We use internal service funds to report activities that provide supplies and services for the District's other programs and activities.
- *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 ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was \$25,927,228 at August 31, 2016.

**Table A-1
Farmersville Independent School District's Net Position**

| | Governmental Activities | | Percentage Change |
|----------------------------------|-------------------------|---------------|-------------------|
| | 2016 | 2015 | |
| Current Assets | \$ 12,603,698 | \$ 10,504,000 | 19.99% |
| Capital Assets | 26,705,204 | 27,109,633 | -1.49% |
| Total Assets | 39,308,902 | 37,613,633 | 4.51% |
| Deferred Outflows | | | |
| Total Deferred Outflows | 1,912,476 | 852,875 | 124.24% |
| Current Liabilities | 743,432 | 721,458 | 3.05% |
| Long-term Liabilities | 14,344,065 | 13,800,559 | 3.94% |
| Total Liabilities | 15,087,497 | 14,522,017 | 3.89% |
| Deferred Inflows | | | |
| Total Deferred Inflows | 206,653 | 388,168 | 100.00% |
| Net Position: | | | |
| Net Investment in Capital Assets | 15,627,787 | 15,105,015 | -3.46% |
| Restricted | 469,613 | 146,867 | 219.75% |
| Unrestricted | 9,829,828 | 8,304,441 | 18.37% |
| Total Net Position | \$ 25,927,228 | \$ 23,556,323 | -10.06% |

Of the District's restricted net position, \$375,968 represents funds held for debt retirement. These funds are accumulated from property tax collections and are restricted for debt retirement. The unrestricted net asset represents resources available to fund the programs of the District for the next year.

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

For the Year Ended August 31, 2016

CHANGES IN NET POSITION

The District's total revenues were \$17,875,512. Of this total, 31% comes from local property taxes (See Table A-2) and 65% comes from state aid and federal grants, while only 4% relates to charges for services and other miscellaneous sources and transfers including investment earnings.

The total cost of all programs and services was \$15,504,607. The largest expense categories were instruction and instructional related services which totaled 60% of total expenses.

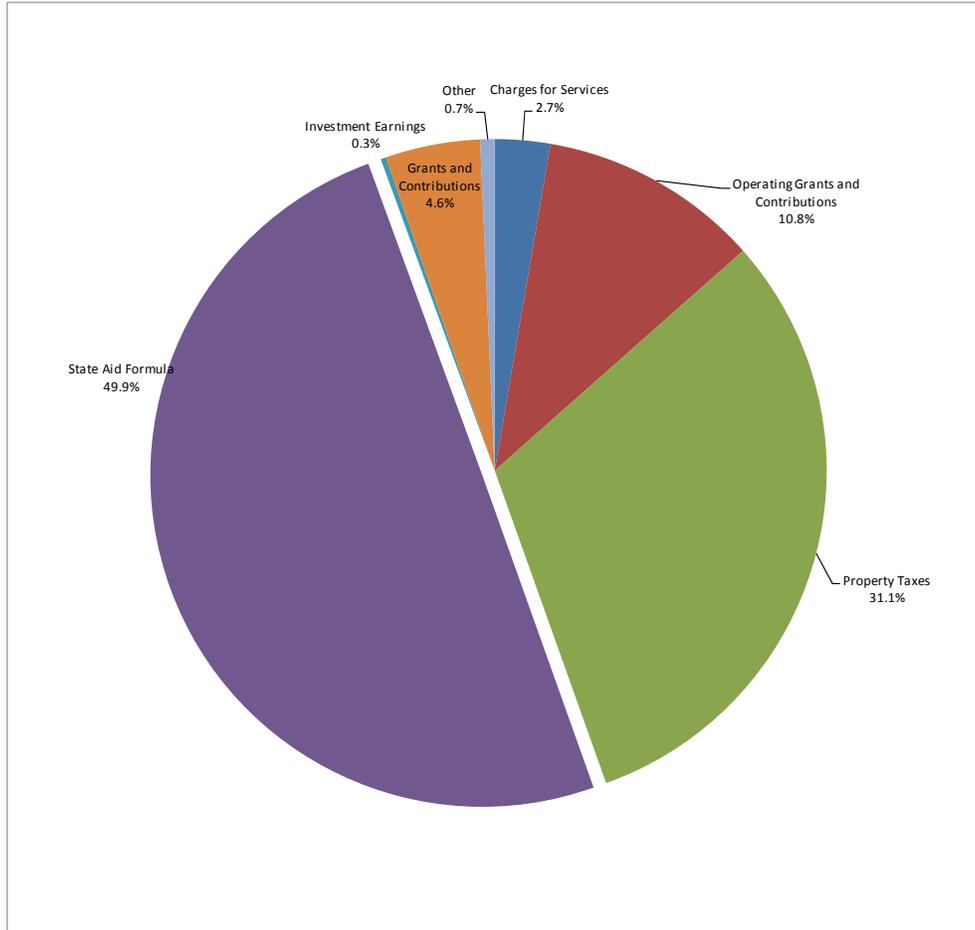
The District's base tax collections (current and delinquent) percentage for fiscal year 2016 is 97.82%. The total tax collections (base tax plus penalty and interest) percentage for fiscal year 2015 was 99%.

Table A-2

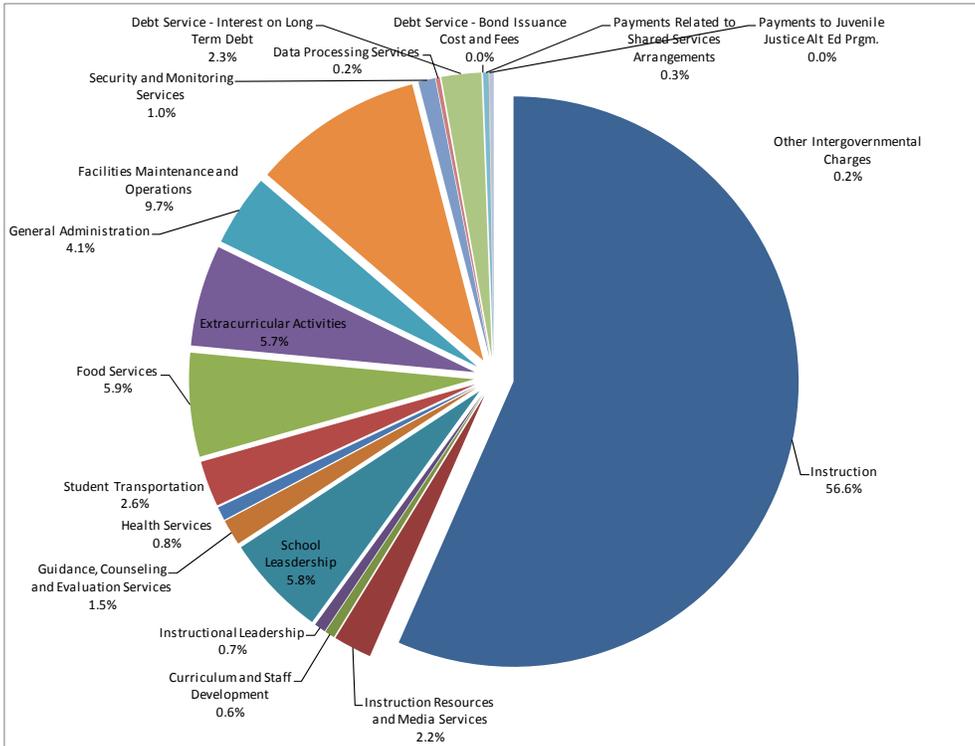
| | Governmental Activities | | Percentage Change |
|--|-------------------------|----------------------|-------------------|
| | 2016 | 2015 | |
| Revenues: | | | |
| Program Revenues | | | |
| Charges for Services | \$ 481,260 | \$ 408,483 | 17.82% |
| Operating Grants and Contributions | 1,924,808 | 1,849,328 | 4.08% |
| Total Program Revenues | <u>2,406,068</u> | <u>2,257,811</u> | 6.57% |
| General Revenues | | | |
| Property Taxes | 5,557,883 | 5,221,571 | 6.44% |
| State Aid Formula | 8,913,992 | 8,745,414 | 1.93% |
| Investment Earnings | 47,652 | 34,659 | 37.49% |
| Grants and Contributions | 823,395 | 330,679 | 0.00% |
| Other | 126,522 | 129,479 | -2.28% |
| Total General Revenue | <u>15,469,444</u> | <u>14,461,802</u> | 6.97% |
| Total Revenues | <u>17,875,512</u> | <u>16,719,613</u> | 6.91% |
| Expenses: | | | |
| Instruction | 8,774,984 | 7,866,918 | 11.54% |
| Instruction Resources and Media Services | 338,370 | 301,251 | 12.32% |
| Curriculum and Staff Development | 87,330 | 112,770 | -22.56% |
| Instructional Leadership | 101,010 | 75,113 | 34.48% |
| School Leadership | 898,492 | 779,042 | 15.33% |
| Guidance, Counseling and Evaluation Services | 226,294 | 206,185 | 9.75% |
| Health Services | 120,063 | 101,007 | 18.87% |
| Student Transportation | 403,500 | 386,471 | 4.41% |
| Food Services | 909,924 | 832,207 | 9.34% |
| Extracurricular Activities | 887,575 | 831,909 | 6.69% |
| General Administration | 631,722 | 552,226 | 14.40% |
| Facilities Maintenance and Operations | 1,501,481 | 1,623,411 | -7.51% |
| Security and Monitoring Services | 148,353 | 171,822 | -13.66% |
| Data Processing Services | 34,598 | - | 0.00% |
| Debt Service - Interest on Long Term Debt | 350,230 | 371,757 | -5.79% |
| Debt Service - Bond Issuance Cost and Fees | 1,250 | 1,250 | 100.00% |
| Payments Related to Shared Services Arrangements | 47,836 | 47,745 | 0.19% |
| Payments to Juvenile Justice Alt Ed Prgm. | 5,985 | 11,266 | 100.00% |
| Other Intergovernmental Charges | 35,610 | 32,651 | 9.06% |
| Total Expenses | <u>15,504,607</u> | <u>14,305,001</u> | 8.39% |
| Increase/(Decrease) in Net Position | <u>2,370,905</u> | <u>2,414,612</u> | 1.81% |
| Beginning Net Position | 23,556,323 | 22,579,408 | -4.33% |
| Prior Period Adjustment | - | (1,437,697) | |
| Ending Net Position | <u>\$ 25,927,228</u> | <u>\$ 23,556,323</u> | -10.06% |

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT
 Management's Discussion and Analysis
 For the Year Ended August 31, 2016

Government-Wide Revenues for Fiscal Year 2016 – See Table A-2



Government-Wide Expenses for Fiscal Year 2016 – See Table A-2



FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

For the Year Ended August 31, 2016

Table A-3 presents the cost of selected district functions as well as the selected functions' net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local property tax dollars.

- The cost of all governmental activities this year was \$15,504,607.
- However, the amount that our taxpayers paid for these activities through local property taxes was \$5,557,883.
- Some of the cost was paid by those who directly benefited from the programs at \$481,260; or
- By grants and contributions at \$1,924,808.

**Table A-3
Net Cost of Selected District Functions
Governmental Activities**

| | Total Cost of Services | | | Net Cost of Services | | |
|--------------------------------|------------------------|--------------|----------|----------------------|--------------|----------|
| | 2016 | 2015 | % Chg | 2016 | 2015 | % Chg |
| Instruction | \$ 8,774,984 | \$ 7,866,918 | 11.5% | \$ 7,660,797 | \$ 6,752,256 | 13.5% |
| School Leadership | 898,492 | 779,042 | 15.3% | 852,313 | 737,510 | 15.6% |
| General Administration | 631,722 | 552,226 | 14.4% | 607,426 | 531,778 | 14.2% |
| Plant Maintenance & Operations | 1,501,481 | 1,623,411 | -7.5% | 1,475,943 | 1,597,262 | -7.6% |
| Debt Service | \$ 351,480 | \$ 373,007 | -5.8% | \$ 351,480 | \$ 373,007 | -5.8% |

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

Revenues from governmental fund types totaled \$17,622,291. Any increase in state revenues is a result of attendance gains and state increases to the basic allotment amount per student. Any decrease in federal revenues is primarily due to a decrease in federal program revenue distributed through other agencies.

The General Fund reported an ending fund balance of \$10,783,178. This was a increase in the General Fund balance from the prior year in the amount of \$1,853,188. The unassigned General Fund balance increased \$1,857,377 from the prior year.

GENERAL FUND BUDGETARY HIGHLIGHTS

Over the course of the year, the District revised its budget to reflect activities in the District. With these adjustments, actual expenditures were \$1,040,634 less than the final General Fund amounts. The most significant positive variances in the District's budget occurred in instruction and instructional-related services.

Resources available were \$1,517,565 higher than the final budgeted amount. The favorable variance was related to increases in property tax receipts and state program revenues.

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

For the Year Ended August 31, 2016

CAPITAL ASSETS & DEBT ADMINISTRATION

CAPITAL ASSETS

At year end, the District had invested \$39,583,662 in a broad range of capital assets, including land, construction in progress, furniture and equipment, buildings and improvements and vehicles (See Table A-4).

**Table A4
Capital Assets**

| | <u>August 31, 2016</u> | <u>August 31, 2015</u> | <u>Percentage Change</u> |
|-----------------------------------|------------------------|------------------------|------------------------------|
| Land | \$ 623,687 | \$ 623,687 | 0.00% |
| Buildings and Improvements | 31,505,898 | 31,505,898 | 0.00% |
| Furniture, Equipment and Vehicles | 1,939,192 | 1,944,109 | -0.25% |
| Construction in Progress | <u>5,514,885</u> | <u>5,142,508</u> | 100.00% |
| Total Historical Cost | <u>39,583,662</u> | <u>39,216,202</u> | 0.94% |
| Total Accumulated Depreciation | <u>(12,878,458)</u> | <u>(12,106,569)</u> | -6.38% |
| Net Capital Assets | <u>\$ 26,705,204</u> | <u>\$ 27,109,633</u> | -1.49% |

LONG TERM DEBT

At year end, the District had \$11,566,826 in debt outstanding as shown in Table A-5. More detailed information about the District's debt is presented in the notes to the basic financial statements.

**Table A5
Long Term Debt Analysis**

| | <u>August 31, 2016</u> | <u>August 31, 2015</u> | <u>Percentage Change</u> |
|---------------|------------------------|------------------------|------------------------------|
| Bonds Payable | \$ 10,970,000 | \$ 11,885,001 | -7.70% |
| Bond Premium | <u>596,826</u> | <u>646,634</u> | -7.70% |
| Total Debt | <u>\$ 11,566,826</u> | <u>12,531,635</u> | -7.70% |

More detailed information is available about the District's debt in Note 4, Section G of the Notes to the Financial Statements.

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Management's Discussion and Analysis

For the Year Ended August 31, 2016

ECONOMIC FACTORS

Local property values continue to rise at a slow but steady pace in the district. The Tax Ratification Election held in September 2010 allowed the district to raise the maintenance and operations tax rate and at the same time lower the interest and bonded debt rate by \$0.13 respectively. The additional generation of state funding positioned the district to accomplish goals set by the Board and administration.

While student population growth is steady, it is not significant. Following an enrollment spike every eight to ten years, student enrollment will typically hold steady for several budget cycles. Enrollment increases in mid cycle typically run between .1% and .9%. The District experienced a 1.7% increase in 2015-16 and is expecting an upward trend in future years. The District has accounted for this trend and does not project student enrollment growth year over year, but instead looks at trends over the eight to ten year span. Housing continues to grow at a very slow pace as compared to other north central Texas communities. Using enrollment trends and housing trends allows the district to project funding needs for the upgrade and maintenance of current facilities while planning for future building projects.

FISD, along with other Texas public school districts, was disappointed in the outcome of the challenge to the state's funding system. However, FISD is committed to the expenditure of funds that best meets the needs of students.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Sherry McGuire, Business Manager for the District.

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BASIC FINANCIAL STATEMENTS

FARMERSVILLE 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 | \$ 10,834,153 |
| 1120 Current Investments | 175 |
| 1210 Property Taxes - Current | 945 |
| 1220 Property Taxes Receivable (Delinquent) | 693,321 |
| 1230 Allowance for Uncollectible Taxes | (34,666) |
| 1240 Due from Other Governments | 1,050,576 |
| 1260 Internal Balances | (1,174) |
| 1267 Due from Fiduciary Funds | 1,174 |
| 1290 Other Receivables, net | 251 |
| 1410 Prepayments | 58,943 |
| Capital Assets: | |
| 1510 Land | 623,687 |
| 1520 Buildings, Net | 20,179,184 |
| 1530 Furniture and Equipment, Net | 387,448 |
| 1580 Construction in Progress | 5,514,885 |
| 1000 Total Assets | 39,308,902 |
| DEFERRED OUTFLOWS OF RESOURCES | |
| 1701 Deferred Charge for Refunding | 477,728 |
| 1705 Deferred Outflow Related to TRS | 1,434,748 |
| 1700 Total Deferred Outflows of Resources | 1,912,476 |
| LIABILITIES | |
| 2110 Accounts Payable | 79,195 |
| 2140 Interest Payable | 14,573 |
| 2160 Accrued Wages Payable | 523,061 |
| 2200 Accrued Expenses | 126,603 |
| Noncurrent Liabilities | |
| 2501 Due Within One Year | 945,000 |
| 2502 Due in More Than One Year | 10,621,826 |
| 2540 Net Pension Liability (District's Share) | 2,777,239 |
| 2000 Total Liabilities | 15,087,497 |
| DEFERRED INFLOWS OF RESOURCES | |
| 2605 Deferred Inflow Related to TRS | 206,653 |
| 2600 Total Deferred Inflows of Resources | 206,653 |
| NET POSITION | |
| 3200 Net Investment in Capital Assets | 15,627,787 |
| 3820 Restricted for Federal and State Programs | 93,645 |
| 3850 Restricted for Debt Service | 375,968 |
| 3900 Unrestricted | 9,829,828 |
| 3000 Total Net Position | \$ 25,927,228 |

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

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

EXHIBIT B-1

| Data Control Codes | 1 | Program Revenues | | 6 |
|--|--|-------------------------|--|--|
| Codes | Expenses | Charges for Services | Operating Grants and Contributions | Net (Expense) Revenue and Changes in Net Position Primary Gov. Governmental Activities |
| Primary Government: | | | | |
| GOVERNMENTAL ACTIVITIES: | | | | |
| 11 Instruction | \$ 8,774,984 | \$ 5,405 | \$ 1,108,782 | \$ (7,660,797) |
| 12 Instructional Resources and Media Services | 338,370 | - | 15,607 | (322,763) |
| 13 Curriculum and Staff Development | 87,330 | - | 4,822 | (82,508) |
| 21 Instructional Leadership | 101,010 | - | 4,823 | (96,187) |
| 23 School Leadership | 898,492 | - | 46,179 | (852,313) |
| 31 Guidance, Counseling and Evaluation Services | 226,294 | - | 10,844 | (215,450) |
| 33 Health Services | 120,063 | - | 5,150 | (114,913) |
| 34 Student (Pupil) Transportation | 403,500 | - | 8,777 | (394,723) |
| 35 Food Services | 909,924 | 217,096 | 649,133 | (43,695) |
| 36 Extracurricular Activities | 887,575 | 252,645 | 17,685 | (617,245) |
| 41 General Administration | 631,722 | - | 24,296 | (607,426) |
| 51 Facilities Maintenance and Operations | 1,501,481 | 6,114 | 19,424 | (1,475,943) |
| 52 Security and Monitoring Services | 148,353 | - | 9,286 | (139,067) |
| 53 Data Processing Services | 34,598 | - | - | (34,598) |
| 72 Debt Service - Interest on Long Term Debt | 350,230 | - | - | (350,230) |
| 73 Debt Service - Bond Issuance Cost and Fees | 1,250 | - | - | (1,250) |
| 93 Payments related to Shared Services Arrangements | 47,836 | - | - | (47,836) |
| 95 Payments to Juvenile Justice Alternative Ed. Prg. | 5,985 | - | - | (5,985) |
| 99 Other Intergovernmental Charges | 35,610 | - | - | (35,610) |
| [TP] TOTAL PRIMARY GOVERNMENT: | \$ 15,504,607 | \$ 481,260 | \$ 1,924,808 | (13,098,539) |
| Data Control Codes | General Revenues: | | | |
| MT | Property Taxes, Levied for General Purposes | | | 4,549,070 |
| DT | Property Taxes, Levied for Debt Service | | | 1,008,813 |
| SF | State Aid - Formula Grants | | | 8,913,992 |
| GC | Grants and Contributions not Restricted | | | 823,395 |
| IE | Investment Earnings | | | 47,652 |
| MI | Miscellaneous Local and Intermediate Revenue | | | 126,522 |
| TR | Total General Revenues | | | 15,469,444 |
| CN | Change in Net Position | | | 2,370,905 |
| NB | Net Position - Beginning | | | 23,556,323 |
| NE | Net Position--Ending | | | \$ 25,927,228 |

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

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

| Data Control Codes | 10 General Fund | 50 Debt Service Fund | Other Funds | Total Governmental Funds |
|--|-----------------------|----------------------------|-------------------|--------------------------------|
| ASSETS | | | | |
| 1110 Cash and Cash Equivalents | \$ 10,474,493 | \$ 270,812 | \$ (34,025) | \$ 10,711,280 |
| 1120 Investments - Current | - | - | 175 | 175 |
| 1210 Property Taxes - Current | 773 | 172 | - | 945 |
| 1220 Property Taxes - Delinquent | 584,312 | 109,009 | - | 693,321 |
| 1230 Allowance for Uncollectible Taxes (Credit) | (29,216) | (5,450) | - | (34,666) |
| 1240 Receivables from Other Governments | 871,342 | - | 179,234 | 1,050,576 |
| 1260 Due from Other Funds | - | 1,174 | - | 1,174 |
| 1290 Other Receivables | - | 251 | - | 251 |
| 1410 Prepayments | 58,943 | - | - | 58,943 |
| 1000 Total Assets | <u>\$ 11,960,647</u> | <u>\$ 375,968</u> | <u>\$ 145,384</u> | <u>\$ 12,481,999</u> |
| LIABILITIES | | | | |
| 2110 Accounts Payable | \$ 7,303 | \$ - | \$ 4,290 | \$ 11,593 |
| 2160 Accrued Wages Payable | 489,087 | - | 33,974 | 523,061 |
| 2170 Due to Other Funds | 1,174 | - | - | 1,174 |
| 2200 Accrued Expenditures | 124,809 | - | 1,794 | 126,603 |
| 2000 Total Liabilities | <u>622,373</u> | <u>-</u> | <u>40,058</u> | <u>662,431</u> |
| DEFERRED INFLOWS OF RESOURCES | | | | |
| 2601 Unavailable Revenue - Property Taxes | 555,096 | 103,559 | - | 658,655 |
| 2600 Total Deferred Inflows of Resources | <u>555,096</u> | <u>103,559</u> | <u>-</u> | <u>658,655</u> |
| FUND BALANCES | | | | |
| Nonspendable Fund Balance: | | | | |
| 3430 Prepaid Items | 58,943 | - | - | 58,943 |
| Restricted Fund Balance: | | | | |
| 3450 Federal or State Funds Grant Restriction | - | - | 93,645 | 93,645 |
| 3480 Retirement of Long-Term Debt | - | 272,409 | - | 272,409 |
| 3490 Other Restricted Fund Balance | - | - | 11,681 | 11,681 |
| Committed Fund Balance: | | | | |
| 3510 Construction | 5,000,000 | - | - | 5,000,000 |
| 3530 Capital Expenditures for Equipment | 1,000,000 | - | - | 1,000,000 |
| 3540 Self Insurance | 200,000 | - | - | 200,000 |
| Assigned Fund Balance: | | | | |
| 3590 Other Assigned Fund Balance | 82,279 | - | - | 82,279 |
| 3600 Unassigned Fund Balance | 4,441,956 | - | - | 4,441,956 |
| 3000 Total Fund Balances | <u>10,783,178</u> | <u>272,409</u> | <u>105,326</u> | <u>11,160,913</u> |
| 4000 Total Liabilities, Deferred Inflows & Fund Balances | <u>\$ 11,960,647</u> | <u>\$ 375,968</u> | <u>\$ 145,384</u> | <u>\$ 12,481,999</u> |

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

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

| | |
|---|---------------|
| Total Fund Balances - Governmental Funds | \$ 11,160,913 |
| 1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase(decrease) net position. | 55,271 |
| 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 \$39,216,202 and the accumulated depreciation was \$12,106,659. In addition, long-term liabilities, including bonds payable of \$11,885,001, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position. | 15,224,632 |
| 3 Current year capital outlays of \$427,938 and long-term debt principal payments of \$915,000 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 current year capital outlays and debt principal payments is to increase (decrease) net position. | 1,342,938 |
| 4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of 2,777,239, a Deferred Resource Inflow related to TRS in the amount of \$206,653 and a Deferred Resource Outflow related to TRS in the amount of \$1,434,748. | (1,549,144) |
| 5 Accrued interest payable on long-term debt is not shown on the fund financial statements, but is shown on the government-wide financial statements. The effect of including accrued interest payable is to decrease net position. | (14,573) |
| 6 The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position. | (816,195) |
| 7 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, eliminating interfund transactions, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position. | 523,386 |
| 19 Net Position of Governmental Activities | \$ 25,927,228 |

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

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

| Data Control Codes | 10 General Fund | 50 Debt Service Fund | Other Funds | Total Governmental Funds | |
|---------------------------|---|----------------------------|-------------------|--------------------------------|----------------------|
| REVENUES: | | | | | |
| 5700 | Total Local and Intermediate Sources | \$ 4,983,208 | \$ 1,030,578 | \$ 219,480 | \$ 6,233,266 |
| 5800 | State Program Revenues | 9,429,290 | 463,324 | 226,477 | 10,119,091 |
| 5900 | Federal Program Revenues | 113,939 | - | 1,155,995 | 1,269,934 |
| 5020 | Total Revenues | <u>14,526,437</u> | <u>1,493,902</u> | <u>1,601,952</u> | <u>17,622,291</u> |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| 0011 | Instruction | 7,198,509 | - | 754,926 | 7,953,435 |
| 0012 | Instructional Resources and Media Services | 307,409 | - | - | 307,409 |
| 0013 | Curriculum and Instructional Staff Development | 83,448 | - | - | 83,448 |
| 0021 | Instructional Leadership | 96,559 | - | - | 96,559 |
| 0023 | School Leadership | 849,617 | - | - | 849,617 |
| 0031 | Guidance, Counseling and Evaluation Services | 213,341 | - | - | 213,341 |
| 0033 | Health Services | 113,391 | - | - | 113,391 |
| 0034 | Student (Pupil) Transportation | 317,690 | - | - | 317,690 |
| 0035 | Food Services | - | - | 836,615 | 836,615 |
| 0036 | Extracurricular Activities | 745,833 | - | - | 745,833 |
| 0041 | General Administration | 602,745 | - | - | 602,745 |
| 0051 | Facilities Maintenance and Operations | 1,877,922 | - | - | 1,877,922 |
| 0052 | Security and Monitoring Services | 142,756 | - | - | 142,756 |
| 0053 | Data Processing Services | 34,598 | - | - | 34,598 |
| Debt Service: | | | | | |
| 0071 | Principal on Long Term Debt | - | 915,000 | - | 915,000 |
| 0072 | Interest on Long Term Debt | - | 363,550 | - | 363,550 |
| 0073 | Bond Issuance Cost and Fees | - | 1,250 | - | 1,250 |
| Intergovernmental: | | | | | |
| 0093 | Payments to Fiscal Agent/Member Districts of SSA | 47,836 | - | - | 47,836 |
| 0095 | Payments to Juvenile Justice Alternative Ed. Prg. | 5,985 | - | - | 5,985 |
| 0099 | Other Intergovernmental Charges | 35,610 | - | - | 35,610 |
| 6030 | Total Expenditures | <u>12,673,249</u> | <u>1,279,800</u> | <u>1,591,541</u> | <u>15,544,590</u> |
| 1200 | Net Change in Fund Balances | 1,853,188 | 214,102 | 10,411 | 2,077,701 |
| 0100 | Fund Balance - September 1 (Beginning) | <u>8,929,990</u> | <u>58,307</u> | <u>94,915</u> | <u>9,083,212</u> |
| 3000 | Fund Balance - August 31 (Ending) | <u>\$ 10,783,178</u> | <u>\$ 272,409</u> | <u>\$ 105,326</u> | <u>\$ 11,160,913</u> |

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

FARMERSVILLE 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 | \$ | 2,077,701 |
| The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase (decrease) net position. | | 18,822 |
| Current year capital outlays of \$427,938 and long-term debt principal payments of \$915,000 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 current year capital outlays and debt principal payments is to increase (decrease) net position. | | 1,342,938 |
| Accrued interest payable on long-term debt is not shown on the fund financial statements, but is shown on the government-wide financial statements. The effect of including accrued interest payable is to increase (decrease) net position. | | 1,150 |
| 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. | | (816,195) |
| Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position. | | (23,951) |
| The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 08/31/15 caused the change in the ending net position to increase in the amount of \$246,856. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability for the District. This caused a decrease in the change in net position totaling \$235,403. The District's proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position by \$241,013. | | (229,560) |
| Change in Net Position of Governmental Activities | <u>\$</u> | <u>2,370,905</u> |

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

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

| | Governmental Activities - |
|---------------------------|------------------------------|
| | Internal Service Fund |
| <hr/> | |
| ASSETS | |
| Current Assets: | |
| Cash and Cash Equivalents | \$ 122,873 |
| Total Assets | <u>122,873</u> |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts Payable | <u>67,602</u> |
| Total Liabilities | <u>67,602</u> |
| NET POSITION | |
| Unrestricted Net Position | <u>55,271</u> |
| Total Net Position | <u><u>\$ 55,271</u></u> |

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

FARMERSVILLE 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 | \$ 58,928 |
| Total Operating Revenues | 58,928 |
| OPERATING EXPENSES: | |
| Other Operating Costs | 40,127 |
| Total Operating Expenses | 40,127 |
| Operating Income | 18,801 |
| NONOPERATING REVENUES (EXPENSES): | |
| Earnings from Temporary Deposits & Investments | 21 |
| Total Nonoperating Revenues (Expenses) | 21 |
| Change in Net Position | 18,822 |
| Total Net Position September 1 (Beginning) | 36,449 |
| Total Net Position August 31 (Ending) | \$ 55,271 |

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

FARMERSVILLE 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 User Charges | \$ 58,928 |
| Cash Payments for Insurance Claims | (40,127) |
| Net Cash Provided by Operating Activities | 18,801 |
| <u>Cash Flows from Investing Activities:</u> | |
| Interest and Dividends on Investments | 21 |
| Net Increase in Cash and Cash Equivalents | 18,822 |
| Cash and Cash Equivalents at Beginning of Year | 104,051 |
| Cash and Cash Equivalents at End of Year | \$ 122,873 |
| <u>Reconciliation of Operating Income (Loss) to Net Cash</u> | |
| <u>Provided By (Used For) Operating Activities:</u> | |
| Operating Income (Loss): | \$ 18,801 |

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

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

EXHIBIT E-1

| | 836-849 Investment Trust Fund | Agency Fund |
|---------------------------|-------------------------------------|----------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ - | \$ 116,322 |
| Investments - Current | 13,095 | - |
| Total Assets | 13,095 | \$ 116,322 |
| LIABILITIES | | |
| Due to Student Groups | - | \$ 116,322 |
| Total Liabilities | - | \$ 116,322 |
| NET POSITION | | |
| Unrestricted Net Position | 13,095 | |
| Total Net Position | \$ 13,095 | |

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

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

| | 836-849 Investment Trust Fund |
|--|-------------------------------------|
| ADDITIONS: | |
| Earnings from Temporary Deposits & | \$ 37 |
| Total Additions | 37 |
| Change in Net Position | 37 |
| Total Net Position September 1 (Beginning) | 13,058 |
| Total Net Position August 31 (Ending) | \$ 13,095 |

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

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Farmersville 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 accounting principles generally accepted in the United States of America promulgated by the Governmental Accounting Standards Board and other authoritative sources. 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.

A. Reporting Entity

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 & Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the District. For the most part, the effect of inter-fund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting & Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are 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 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.

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Measurement Focus, Basis of Accounting & Financial Statement Presentation
(continued)

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

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for un-matured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible to accrual concept, that is, when they are both measurable and available. The District considers them "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

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

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

D. Fund Accounting

The District reports the following major governmental funds:

1. **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. **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.
3. **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.

Fiduciary Funds:

2. **Agency Funds** – The District accounts for resources held for others in a custodial capacity in agency funds. The District’s Agency Fund is for student groups.

E. Assets, Liabilities & Net Position or Equity

1. **Deposits & Investments**

The District’s cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

2. **Due from/(to) Other Funds**

Inter-fund receivables and payables arise from inter-fund transactions and are recorded in all affected funds in the period in which transactions are executed in the normal course of operations.

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

E. Assets, Liabilities & Net Position or Equity *(continued)*

3. Capital Assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the government 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.

Property, plant 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 | 15-50 |
| Building Improvements | 15-50 |
| Vehicles | 5-10 |
| Other Equipment | 3-15 |

4. Vacation & Sick Leave

It is the District's policy to permit some employees to accumulate earned, but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

5. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

E. Assets, Liabilities & Net Position or Equity *(continued)*

5. Long-Term Obligations *(continued)*

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

6. Fund Equity

Fund Balance Classification: The governmental fund financial statements present fund balance classifications that comprise a hierarchy that is based primarily on the extent to which the District is bound to honor constraints for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- Non-Spendable: This classification includes amounts that cannot be spent because they are either (a) not in spendable form or (b) are legally or contractually required to be maintained intact.
- Restricted: This classification includes amounts for which constraints have been placed on the use of the resources either (a) externally imposed by creditors (such as through a debt covenant), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed: This classification includes amounts that can be used only for specific purposes pursuant to constraints imposed by formal action of the Board of Trustees. These amounts cannot be used for any other purpose unless the Board of Trustees removes or changes the specified use by taking the same type of action (ordinance or resolution) that was employed when the funds were initially committed. This classification also includes contractual obligations to the extent that existing resources have been specifically committed for use in satisfying those contractual requirements. The District had \$6,200,000 committed resources as of August 31, 2016
- Assigned: This classification includes amounts that are constrained by the District's intent to be used for a specific purpose but are neither restricted nor committed. This intent can be expressed by an official to which the Board of Trustees delegates this authority.
- Unassigned: This classification includes amounts that have not been assigned to other funds or restricted, committed or assigned to a specific purpose within the General Fund.

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

E. Assets, Liabilities & Net Position or Equity *(continued)*

6. Fund Equity *(continued)*

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent in the following order: restricted, committed, assigned, and unassigned.

As of August 31, 2016, fund balances are composed of the following:

| | General | Debt Service | Capital Projects | Other Governmental | Total |
|-------------------------|---------------|-----------------|---------------------|-----------------------|---------------|
| <u>Nonspendable:</u> | | | | | |
| Prepaid Items | \$ 58,943 | - | - | - | 58,943 |
| <u>Restricted:</u> | | | | | |
| Debt Service | - | 272,409 | - | - | 272,409 |
| Child Nutrition Program | - | - | - | 93,645 | 93,645 |
| Capital Projects | - | - | 11,681 | - | 11,681 |
| <u>Committed:</u> | | | | | |
| Construction | 5,000,000 | - | - | - | 5,000,000 |
| Equipment | 1,000,000 | - | - | - | 1,000,000 |
| Self Insurance | 200,000 | - | - | - | 200,000 |
| <u>Assigned:</u> | | | | | |
| Other Assigned | 82,279 | - | - | - | 82,279 |
| <u>Unassigned</u> | | | | | |
| | 4,441,956 | - | - | - | 4,441,956 |
| Total Fund Balances | \$ 10,783,178 | \$ 272,409 | \$ 11,681 | \$ 93,645 | \$ 11,160,913 |

7. Data Control Codes

The Data Control Codes refer to the account code structure prescribed by T.E.A. 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.

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

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(2) **RECONCILIATION OF GOVERNMENT-WIDE & FUND FINANCIAL STATEMENTS**

A. **Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Position**

Exhibit C-2 provides a reconciliation between *fund balance - total governmental funds* and *Net Position - governmental activities* as reported in the government-wide statement of Net Position. One element of that reconciliation explains that “various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting.” The details of this \$523,386 adjustment are as follows:

Long Term Debt:

| | |
|-------------------------------------|----------------|
| Premium and Discount Costs on Bonds | (596,825) |
| Deferred Loss on Refunding Bonds | <u>477,728</u> |
| | (119,097) |

Capital Assets:

| | |
|----------------------------|-----------------|
| Disposal of Capital Assets | <u>(16,172)</u> |
| | (16,172) |

Deferred Revenue

| | |
|---|----------------|
| To remove the unavailable revenue from property taxes | 115,273 |
| To remove prior year collectible delinquent tax levy receivable from deferred revenue | <u>543,382</u> |
| | 658,655 |

| | |
|--|-------------------|
| Net adjustment to decrease fund balance - total governmental funds to arrive at net position - governmental activities | <u>\$ 523,386</u> |
|--|-------------------|

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(2) RECONCILIATION OF GOVERNMENT-WIDE & FUND FINANCIAL STATEMENTS

(continued)

B. **Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures & Changes in Fund Balances and the Government-Wide Statement of Activities**

Exhibit C-4 provides a reconciliation between *net changes in fund balances – total governmental funds* and *changes in Net Position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “various other reclassifications are necessary to convert from the modified accrual basis of accounting to the full accrual basis of accounting.” The details of this \$(23,951) adjustment are as follows:

| | | |
|---|----|------------------------|
| Long-Term debt: | | |
| Current year amortization | \$ | 12,170 |
| | | <u>12,170</u> |
| Capital Assets: | | |
| Disposal of Capital Assets | | <u>(16,172)</u> |
| | | (16,172) |
| Taxes: | | |
| To move current year and prior year uncollect tax levy to revenue | | <u>(19,949)</u> |
| | | (19,949) |
| Net adjustment to increase net changes in fund balances - | | |
| total governmental funds to arrive at changes to net position of | | |
| governmental activities | \$ | <u><u>(23,951)</u></u> |

(3) STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY

A. **Budgetary Data**

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

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

1. 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.

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(3) **STEWARDSHIP, COMPLIANCE & ACCOUNTABILITY** *(continued)*

A. Budgetary Data *(continued)*

- 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. The budget was properly amended throughout the year by the Board of Trustees.
- 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 non-appropriated budget special revenue funds is as follows:

August 31, 2016 Fund Balance

| | |
|---|------------------|
| Appropriated budget funds - Child Nutrition | \$ 87,562 |
| Non-appropriated budget funds | <u>6,083</u> |
| All Special Revenue Funds | <u>\$ 93,645</u> |

B. Encumbrance Accounting

The District employs encumbrance accounting, whereby encumbrances for goods or purchased services are documented by purchase orders and contracts. An encumbrance represents a commitment or Board appropriation related to unperformed contracts for goods and services. The issuance of a purchase order or the signing of a contract creates an encumbrance but does not represent an expenditure for the period, only commitment to expend resources. Appropriations lapse at August 31 and encumbrances outstanding at that time are either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at year end.

(4) **DETAILED NOTES ON ALL FUNDS**

A. Deposits & Investments

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

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(4) **DETAILED NOTES ON ALL FUNDS** *(continued)*

A. Deposits & Investments *(continued)*

The District's combined deposits at August 31, 2016, and during the year ended August 31, 2016 were fully insured by federal depository insurance or collateralized with securities pledged to the District and held by the District's agent.

In addition the following is disclosed regarding coverage of combined balances on the date of highest deposit:

- a. Name of bank – Independent Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$6,187,998.
- c. The highest combined balances of cash, savings and time of deposit accounts amounted to \$6,213,508 and occurred during the month of November 2015.
- d. Total amount of FDIC coverage at the time of highest combined balance was \$250,000.

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

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

- a. **Custodial Credit Risk** - Deposits: In the case of deposits this is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's policy regarding types of deposits allowed and collateral requirements is: the Depository may be a state bank authorized and regulated under Texas law; a national bank, savings and loan association, or savings bank authorized and regulated by federal law; or a savings and loan association or savings bank organized under Texas law; but shall not be any bank the deposits of which are not insured by the Federal Deposit Insurance Corporation (FDIC). The District is not exposed to custodial credit risk for its deposits, as all are covered by depository insurance and pledged securities.

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(4) **DETAILED NOTES ON ALL FUNDS** *(continued)*

A. Deposits & Investments *(continued)*

- b. **Custodial Credit Risk** – Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District investments are with the Lone Star Investment Pool (“Lone Star”). The pool is a public funds investment pool created to provide a safe environment for the placement of local government funds in authorized short-term investments. Local investment pools operate in a manner consistent with the Security and Exchange Commission’s Rule 2a7 of the Investment Company Act of 1940. Administration of Lone Star is performed by a Board of Directors, which is an administrative agency created under the Interlocal Act. The District is not exposed to custodial credit risk for its investments.
- c. **Credit Risk** – This is the risk that an issuer of an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. The credit quality rating for Lone Star at year end was AAA by Moody’s Investor Service.
- d. **Interest Rate Risk** – This is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year from the time of purchase. The weighted average maturity for the District’s investment in external investment pools is less than 60 days.
- e. **Foreign Currency Risk** – This is the risk that exchange rates will adversely affect the fair value of an investment. The District is not exposed to foreign currency risk.
- f. **Concentration of Credit Risk** – This is the risk of loss attributed to the magnitude of the District’s investment in a single issuer (i.e., lack of diversification). Concentration risk is defined as positions of 5 percent or more in the securities of a single issuer. Investments issued by the U.S. Government and investments in investment pools are excluded from the 5 percent disclosure requirement. The District is not exposed to concentration risk.

The District’s temporary investments at August 31, 2016, were as follows:

| Description | Credit Rating | Fair Value |
|-------------------------|------------------|---------------|
| Texas Class | AAAm | \$ 2,827,830 |
| TexSTAR | AAAm | 750,302 |
| TexPool | AAAm | 1,347,386 |
| Certificates of Deposit | n/a | 1,539,143 |
| Total | | \$ 6,464,661 |

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(4) DETAILED NOTES ON ALL FUNDS (continued)

B. Property Taxes

Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. The District levies its taxes on October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the period following the October 1 levy date.

The tax rates assessed for the year ended August 31, 2016, to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.17 and \$0.26 per \$100 valuation, respectively, for the total of \$1.43 per \$100 valuation. The rates were levied on property assessed totaling \$355,417,608.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting 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. As of August 31, 2016, property taxes receivable, net of estimated uncollectible taxes, totaled \$555,096 for the General Fund and \$103,559 for the Debt Service Fund.

C. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments 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 Other Governments.

| <u>Fund</u> | <u>State Entitlements</u> | <u>Federal Grants</u> | <u>Other Non Major</u> | <u>Total</u> |
|-----------------|-------------------------------|---------------------------|----------------------------|---------------------|
| General | \$ 871,342 | - | - | \$ 871,342 |
| Special Revenue | - | 179,233 | 1 | 179,234 |
| Total | <u>\$ 871,342</u> | <u>179,233</u> | <u>\$ 1</u> | <u>\$ 1,050,576</u> |

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(4) DETAILED NOTES ON ALL FUNDS (continued)

D. Capital Assets

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

| | <u>Beginning Balance</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balance</u> |
|---|------------------------------|------------------|------------------|---------------------------|
| Governmental Activities: | | | | |
| Capital Assets Not Being Depreciated: | | | | |
| Land | \$ 623,687 | - | - | \$ 623,687 |
| Construction in Progress | <u>5,142,508</u> | <u>372,377</u> | | <u>5,514,885</u> |
| Total Not Being Depreciated | <u>5,766,195</u> | <u>372,377</u> | - | <u>6,138,572</u> |
| Capital Assets Being Depreciated: | | | | |
| Buildings and Improvements | 31,505,898 | - | - | 31,505,898 |
| Furniture, Equipment, and Vehicles | <u>1,944,109</u> | <u>55,561</u> | <u>(60,478)</u> | <u>1,939,192</u> |
| Total Being Depreciated | <u>33,450,007</u> | <u>55,561</u> | <u>(60,478)</u> | <u>33,445,090</u> |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Improvements | (10,623,485) | (703,229) | - | (11,326,714) |
| Furniture, Equipment, and Vehicles | <u>(1,483,084)</u> | <u>(112,966)</u> | <u>44,306</u> | <u>(1,551,744)</u> |
| Total Accumulated Depreciation | <u>(12,106,569)</u> | <u>(816,195)</u> | <u>44,306</u> | <u>(12,878,458)</u> |
| Total Capital Assets Being Depreciated, net | <u>21,343,438</u> | | <u>(16,172)</u> | <u>20,566,632</u> |
| Governmental Activities Capital Assets, net | <u>\$ 27,109,633</u> | <u>(388,257)</u> | <u>(16,172)</u> | <u>\$ 26,705,204</u> |

Details of Construction in Progress for the year ended August 31, 2016 are as follows:

| Construction in Progress Detail | <u>Balance at 8/31/15</u> | <u>Increases</u> | <u>Decreases</u> | <u>Balance at 8/31/16</u> |
|---------------------------------|-------------------------------|------------------|------------------|-------------------------------|
| Tatum Fire Alarm | <u>\$ 5,142,508</u> | <u>372,377</u> | - | <u>\$ 5,514,885</u> |
| Total | <u>\$ 5,142,508</u> | <u>372,377</u> | - | <u>\$ 5,514,885</u> |

Depreciation expense was charged to governmental functions as follows:

| | |
|--|-------------------|
| Instruction | \$ 518,774 |
| Instructional Resources and Media | 18,283 |
| School Leadership | 9,794 |
| Guidance, Counseling & Evaluation Services | 3,264 |
| Health Services | 1,714 |
| Student Transportation | 81,293 |
| Food Services | 49,298 |
| CoCurricular/Extracurricular Activities | 125,368 |
| General Administration | 3,918 |
| Plant Maintenance and Operations | <u>4,489</u> |
| Total Depreciation Expense | <u>\$ 816,195</u> |

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(4) DETAILED NOTES ON ALL FUNDS (continued)

E. Bonds Payable

Bonds payable activity for the year ended August 31, 2016, was as follows:

| <u>Governmental Activities</u> | <u>Interest Rate</u> | <u>Beginning Balance</u> | <u>Additions</u> | <u>Reductions</u> | <u>Ending Balance</u> | <u>Due Within One Year</u> |
|--------------------------------|--------------------------|------------------------------|------------------|-------------------|---------------------------|--------------------------------|
| 2008 Refunding | 4.82% | 4,465,000 | - | (465,000) | 4,000,000 | 495,000 |
| 2013 Refunding | 1.81% | 7,420,000 | - | (450,000) | 6,970,000 | 450,000 |
| Subtotal | | 11,885,000 | - | (915,000) | 10,970,000 | 945,000 |
| Bond Premium | | 646,634 | - | (49,808) | 596,826 | |
| Total Bonded Indebtedness | | <u>\$ 12,531,634</u> | <u>-</u> | <u>(964,808)</u> | <u>11,566,826</u> | <u>\$ 945,000</u> |

Interest expense for the year on all bonded indebtedness was \$363,550.

Debt Service requirements on bonded debt at August 31, 2016 are as follows:

| <u>Year Ending August 31</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Requirements</u> |
|----------------------------------|----------------------|------------------|-------------------------------|
| 2017 | 945,000 | 335,350 | 1,280,350 |
| 2018 | 625,000 | 309,550 | 934,550 |
| 2019 | 650,000 | 286,250 | 936,250 |
| 2020 | 675,000 | 261,950 | 936,950 |
| 2021 | 705,000 | 236,550 | 941,550 |
| 2021-2025 | 3,870,000 | 790,000 | 4,660,000 |
| 2026-2030 | 3,500,000 | 210,025 | 3,710,025 |
| | <u>\$ 10,970,000</u> | <u>2,429,675</u> | <u>\$ 13,399,675</u> |

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(5) OTHER INFORMATION

A. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2015, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

B. Litigation & Contingencies

The District does not appear to be involved in any litigation as of August 31, 2016. 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 collectability of any related receivable at August 31, 2016, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

C. Revenues from Local & Intermediate Sources

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

| | General Fund | Debt Service Fund | Other Governmental Funds | Total |
|-------------------------------|-----------------|-------------------------|--------------------------------|--------------|
| Property Taxes | \$ 4,587,024 | 1,015,672 | | \$ 5,602,695 |
| Food Service Income | - | - | 217,096 | 217,096 |
| Investment Income | 52,557 | 1,178 | 31 | 53,766 |
| Penalties, Interest and Other | | | | |
| Tax Related Income | 73,162 | 13,728 | | 86,890 |
| Extracurricular Activities | 36,602 | - | | 36,602 |
| Other | 233,864 | - | 2,353 | 236,217 |
| Total | \$ 4,983,208 | 1,030,578 | 219,480 | \$ 6,233,266 |

D. Deferred Inflow of Resources

Governmental funds report *deferred inflow of resources* in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *deferred inflow of resources* reported in the governmental funds were as follows:

| | General Fund | Special Revenue Fund | Debt Service Fund | Total |
|-----------------|-----------------|----------------------------|-------------------------|---------|
| Net Tax Revenue | \$ 555,096 | - | 103,559 | 658,655 |
| Total | \$ 555,096 | - | 103,559 | 658,655 |

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(5) **OTHER INFORMATION** *(continued)*

E. Health Care Coverage

For the year ending August 31, 2016, all employees of the District are covered by the TRS active care insurance plan (the plan). The District paid premiums of \$225 per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to licensed insurer. The plan was authorized by Article 3.51-2., Texas Insurance Code, and was documented by contractual agreement.

F. Defined Benefit Pension Plan

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

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

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

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(5) **OTHER INFORMATION** *(continued)*

F. Defined Benefit Pension Plan *(continued)*

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 postemployment 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 2016 and 2017.

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(5) **OTHER INFORMATION** *(continued)*

F. Defined Benefit Pension Plan *(continued)*

| | <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% |
| | | |
| 2016 Employer Contributions | \$ | 246,856 |
| 2016 Member Contributions | \$ | 622,449 |
| 2015 NECE On-behalf Contributions | \$ | 424,138 |

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

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(5) **OTHER INFORMATION** *(continued)*

F. Defined Benefit Pension Plan *(continued)*

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

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

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 |
| Remaining Amortization Period | 30 Years |
| Single Discount Rate | 8.00% |
| Long-Term Expected Investment Rate of Return* | 8.00% |
| Inflation | 2.50% |
| Salary Increases Including Inflation | 3.5 % to 9.5% |
| Payroll Growth Rate | 2.50% |
| Benefit Changes During the Year | None |
| Ad Hoc Post-Employment Benefit Changes | None |

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

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(5) **OTHER INFORMATION** *(continued)*

F. Defined Benefit Pension Plan *(continued)*

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 all future benefit payments of current plan members. 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 Real Rate of Return | Expected Contribution to Long-Term Portfolio Returns* |
|-------------------------------|----------------------|---|--|
| Global Equity | | | |
| U.S. | 18.0% | 4.6% | 1.0% |
| Non-U.S. Developed | 13.0% | 5.1% | 0.8% |
| Emerging Markets | 9.0% | 5.9% | 0.7% |
| Directional Hedge Funds | 4.0% | 3.2% | 0.1% |
| Private Equity | 13.0% | 7.0% | 1.1% |
| Stable Value | | | |
| U.S. Treasuries | 11.0% | 0.7% | 0.1% |
| Absolute Return | 0.0% | 1.8% | 0.0% |
| Stable Value Hedge Funds | 4.0% | 3.0% | 0.1% |
| Cash | 1.0% | -0.2% | 0.0% |
| Real Return | | | |
| Global Inflation Linked Bonds | 3.0% | 0.9% | 0.0% |
| Real Assets | 16.0% | 5.1% | 1.1% |
| Energy and Natural Resources | 3.0% | 6.6% | 0.2% |
| Commodities | 0.0% | 1.2% | 0.0% |
| Risk Parity | | | |
| Risk Parity | 5.0% | 6.7% | 0.3% |
| Inflation Expectation | | | 2.2% |
| Alpha | | | 1.0% |
| Total | 100.0% | | 8.7% |

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

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(5) **OTHER INFORMATION** *(continued)*

F. Defined Benefit Pension Plan *(continued)*

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

| | 1% Decrease in Discount Rate (7.0%) | Discount Rate (8.0%) | 1% Increase in Discount Rate (9.0%) |
|--|---|-------------------------|---|
| District's Proportionate share of the net pension liability: | \$ 4,351,410 | \$ 2,777,239 | \$ 1,466,052 |

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

At August 31, 2015, Farmersville Independent School District reported a liability of \$2,777,239 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction of State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

| | |
|--|--------------------|
| District's proportionate share of the collective net pension liability | \$2,777,239 |
| State's proportionate share that is associated with the District | <u>\$5,061,816</u> |
| Total | <u>\$7,839,055</u> |

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

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.0078567% which was an increase of .0031062% from its proportion measured as of August 31, 2014.

For the year ended August 31, 2015, the District recognized pension expense of \$721,227 and revenue of \$721,227 for support provided by the State.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experiences | \$ 16,321 | \$ 106,732 |
| Changes in actuarial assumptions | 68,597 | 99,080 |
| Differences between projected and actual investment earnings | 393,096 | - |
| Changes in proportion and differences between the employer's contributions and the proportionate share of contributions | 709,878 | 841 |
| Total as of August 31, 2015 measurement date | \$ 1,187,892 | \$ 206,653 |
| Contributions paid to TRS subsequent to the measurement date | 246,856 | - |
| Total as of August 31, 2015 measurement date | \$ 1,434,748 | \$ 206,653 |

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(5) **OTHER INFORMATION** (continued)

F. Defined Benefit Pension Plan (continued)

Pension Liabilities, Pension Expense & Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

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

| Year ended August 31, | Pension Expense Amount |
|-----------------------|------------------------|
| 2017 | \$ 176,462 |
| 2018 | 176,462 |
| 2019 | 176,463 |
| 2020 | 273,421 |
| 2021 | 101,414 |
| Thereafter | 77,017 |

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% to 2.5%
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 3.5% to 2.5%.

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.

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(5) **OTHER INFORMATION** *(continued)*

F. Defined Benefit Pension Plan *(continued)*

Changes Since the Prior Actuarial Valuation *(continued)*

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.
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.

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(5) **OTHER INFORMATION** *(continued)*

G. Retiree Health Plan

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

Funding Policy – Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2014, 2015, and 2016. 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.

On Behalf Payments – On Behalf payments made by the State for Retiree Health Plan contributions totaled \$24,994. Additionally, the District is allocated a portion of the Medicare Part D retiree drug subsidy the TRS-Care receives. The amount allocated on behalf for the year ended August 31, 2016 was estimated by TRS at \$31,515.

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(5) **OTHER INFORMATION** *(continued)*

H. Workers' Compensation Insurance

The District participates in the East Texas Educational Insurance Association Workers' Compensation Self Insurance Joint Fund. The District is partially self-funded to a loss fund maximum of \$81,649 for the 2015-16 fiscal year. The District incurred additional costs for their share of claims administration, loss control, record keeping and cost of excess insurance.

Claims administration is provided by Claims Administration Services, Inc. Reinsurance is provided for the Fund for aggregate losses for claims exceeding \$225,000. The fixed cost charge is based on total payroll paid the District.

The accrued liability for worker's compensation self-insurance of \$40,718 includes incurred but not reported claims. Because actual claim liabilities depend on such complex factors, the process used in computing the liability does not necessarily result in an actual amount.

Changes in the balances of claims liability amounts in fiscal years 2015 and 2016 are as follows:

| | <u>2016</u> | <u>2015</u> |
|------------------------------------|------------------|-------------|
| Unpaid Claims, Beginning of Period | \$ - | 87,145 |
| Incurred Claims | 39,861 | - |
| Claim Payments | (8,455) | (87,145) |
| Unpaid Claims, End of Period | <u>\$ 31,406</u> | <u>-</u> |

I. Unemployment Compensation Pool

During the year ended August 31, 2016, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (The Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Local Government Code.

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

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

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Financial Statements

Year Ended August 31, 2016

(6) ARBITRAGE COMPLIANCE

The District is monitoring its compliance with Federal arbitrage regulations. As of August 31, 2016, the District is in compliance with Federal regulations and the District has no liability for arbitrage rebates.

(7) EVALUTATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 29, 2016, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

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

| Data Control Codes | Budgeted Amounts | | Actual Amounts (GAAP BASIS) | Variance With Final Budget Positive or (Negative) | |
|---------------------------|---|--------------|--------------------------------|--|--------------|
| | Original | Final | | | |
| REVENUES: | | | | | |
| 5700 | Total Local and Intermediate Sources | \$ 4,411,126 | \$ 4,411,126 | \$ 4,983,208 | \$ 572,082 |
| 5800 | State Program Revenues | 8,597,746 | 8,597,746 | 9,429,290 | 831,544 |
| 5900 | Federal Program Revenues | - | - | 113,939 | 113,939 |
| 5020 | Total Revenues | 13,008,872 | 13,008,872 | 14,526,437 | 1,517,565 |
| EXPENDITURES: | | | | | |
| Current: | | | | | |
| 0011 | Instruction | 7,744,090 | 7,744,090 | 7,198,509 | 545,581 |
| 0012 | Instructional Resources and Media Services | 323,913 | 323,913 | 307,409 | 16,504 |
| 0013 | Curriculum and Instructional Staff Development | 114,038 | 114,038 | 83,448 | 30,590 |
| 0021 | Instructional Leadership | 122,700 | 122,700 | 96,559 | 26,141 |
| 0023 | School Leadership | 860,717 | 860,717 | 849,617 | 11,100 |
| 0031 | Guidance, Counseling and Evaluation Services | 223,940 | 223,940 | 213,341 | 10,599 |
| 0033 | Health Services | 117,475 | 117,475 | 113,391 | 4,084 |
| 0034 | Student (Pupil) Transportation | 456,332 | 456,332 | 317,690 | 138,642 |
| 0036 | Extracurricular Activities | 819,216 | 819,216 | 745,833 | 73,383 |
| 0041 | General Administration | 608,347 | 608,347 | 602,745 | 5,602 |
| 0051 | Facilities Maintenance and Operations | 2,015,942 | 2,015,942 | 1,877,922 | 138,020 |
| 0052 | Security and Monitoring Services | 154,173 | 154,173 | 142,756 | 11,417 |
| 0053 | Data Processing Services | 40,000 | 40,000 | 34,598 | 5,402 |
| Intergovernmental: | | | | | |
| 0093 | Payments to Fiscal Agent/Member Districts of | 48,000 | 48,000 | 47,836 | 164 |
| 0095 | Payments to Juvenile Justice Alternative Ed. Prg. | 29,000 | 29,000 | 5,985 | 23,015 |
| 0099 | Other Intergovernmental Charges | 36,000 | 36,000 | 35,610 | 390 |
| 6030 | Total Expenditures | 13,713,883 | 13,713,883 | 12,673,249 | 1,040,634 |
| 1200 | Net Change in Fund Balances | (705,011) | (705,011) | 1,853,188 | 2,558,199 |
| 0100 | Fund Balance - September 1 (Beginning) | 8,929,990 | 8,929,990 | 8,929,990 | - |
| 3000 | Fund Balance - August 31 (Ending) | \$ 8,224,979 | \$ 8,224,979 | \$ 10,783,178 | \$ 2,558,199 |

COMBINING STATEMENTS

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

| Data Control Codes | 205 Head Start | 211 ESEA I, A Improving Basic Program | 224 IDEA - Part B Formula | 225 IDEA - Part B Preschool |
|--------------------------|-------------------|--|---------------------------------|-----------------------------------|
| ASSETS | | | | |
| 1110 | \$ (1,161) | \$ (27,113) | \$ (78,830) | \$ - |
| 1120 | - | - | - | - |
| 1240 | 1,161 | 33,462 | 90,097 | - |
| 1000 | <u>\$ -</u> | <u>\$ 6,349</u> | <u>\$ 11,267</u> | <u>\$ -</u> |
| LIABILITIES | | | | |
| 2110 | \$ - | \$ - | \$ 240 | \$ - |
| 2160 | - | 5,797 | 10,045 | - |
| 2200 | - | 552 | 982 | - |
| 2000 | <u>-</u> | <u>6,349</u> | <u>11,267</u> | <u>-</u> |
| FUND BALANCES | | | | |
| Restricted Fund Balance: | | | | |
| 3450 | - | - | - | - |
| 3490 | - | - | - | - |
| 3000 | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 4000 | <u>\$ -</u> | <u>\$ 6,349</u> | <u>\$ 11,267</u> | <u>\$ -</u> |

| 240 National Breakfast and Lunch Program | 242 Summer Feeding Program | 244 Career and Technical - Basic Grant | 255 ESEA II,A Training and Recruiting | 263 Title III, A English Lang. Acquisition | 289 Summer School LEP | 410 State Textbook Fund | 429 Other State Special Revenue Funds |
|---|-------------------------------------|---|--|---|-----------------------------|----------------------------------|--|
| \$ 80,698 | \$ 3,314 | \$ - | \$ (23,774) | \$ (4,922) | \$ - | \$ 4,333 | \$ 1,749 |
| 175 | - | - | - | - | - | - | - |
| 22,813 | - | - | 24,808 | 6,892 | - | - | 1 |
| <u>\$ 103,686</u> | <u>\$ 3,314</u> | <u>\$ -</u> | <u>\$ 1,034</u> | <u>\$ 1,970</u> | <u>\$ -</u> | <u>\$ 4,333</u> | <u>\$ 1,750</u> |
| \$ 4,050 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - |
| 15,258 | - | - | 942 | 1,932 | - | - | - |
| 130 | - | - | 92 | 38 | - | - | - |
| <u>19,438</u> | <u>-</u> | <u>-</u> | <u>1,034</u> | <u>1,970</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 84,248 | 3,314 | - | - | - | - | 4,333 | 1,750 |
| - | - | - | - | - | - | - | - |
| <u>84,248</u> | <u>3,314</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>4,333</u> | <u>1,750</u> |
| <u>\$ 103,686</u> | <u>\$ 3,314</u> | <u>\$ -</u> | <u>\$ 1,034</u> | <u>\$ 1,970</u> | <u>\$ -</u> | <u>\$ 4,333</u> | <u>\$ 1,750</u> |

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

| Data Control Codes | Total Nonmajor Special Revenue Funds | 699 Capital Projects Fund | Total Nonmajor Governmental Funds | |
|--------------------------|---|------------------------------------|--|-------------------|
| ASSETS | | | | |
| 1110 | Cash and Cash Equivalents | \$ (45,706) | \$ 11,681 | \$ (34,025) |
| 1120 | Investments - Current | 175 | - | 175 |
| 1240 | Receivables from Other Governments | 179,234 | - | 179,234 |
| 1000 | Total Assets | <u>\$ 133,703</u> | <u>\$ 11,681</u> | <u>\$ 145,384</u> |
| LIABILITIES | | | | |
| 2110 | Accounts Payable | \$ 4,290 | \$ - | \$ 4,290 |
| 2160 | Accrued Wages Payable | 33,974 | - | 33,974 |
| 2200 | Accrued Expenditures | 1,794 | - | 1,794 |
| 2000 | Total Liabilities | <u>40,058</u> | <u>-</u> | <u>40,058</u> |
| FUND BALANCES | | | | |
| Restricted Fund Balance: | | | | |
| 3450 | Federal or State Funds Grant Restriction | 93,645 | - | 93,645 |
| 3490 | Other Restricted Fund Balance | - | 11,681 | 11,681 |
| 3000 | Total Fund Balances | <u>93,645</u> | <u>11,681</u> | <u>105,326</u> |
| 4000 | Total Liabilities and Fund Balances | <u>\$ 133,703</u> | <u>\$ 11,681</u> | <u>\$ 145,384</u> |

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FARMERSVILLE 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 | 205 Head Start | 211 ESEA I, A Improving Basic Program | 224 IDEA - Part B Formula | 225 IDEA - Part B Preschool |
|---|-----------------------|--|---------------------------------|-----------------------------------|
| REVENUES: | | | | |
| 570 Total Local and Intermediate Sources | \$ - | \$ - | \$ - | \$ - |
| 580 State Program Revenues | - | - | - | - |
| 590 Federal Program Revenues | 33,905 | 231,859 | 259,665 | 7,628 |
| 5020 Total Revenues | <u>33,905</u> | <u>231,859</u> | <u>259,665</u> | <u>7,628</u> |
| EXPENDITURES: | | | | |
| Current: | | | | |
| 001 Instruction | 33,905 | 231,859 | 259,665 | 7,628 |
| 003 Food Services | - | - | - | - |
| 6030 Total Expenditures | <u>33,905</u> | <u>231,859</u> | <u>259,665</u> | <u>7,628</u> |
| 1200 Net Change in Fund Balance | - | - | - | - |
| 0100 Fund Balance - September 1 (Beginning) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| 3000 Fund Balance - August 31 (Ending) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

| 240 National Breakfast and Lunch Program | 242 Summer Feeding Program | 244 Career and Technical - Basic Grant | 255 ESEA II,A Training and Recruiting | 263 Title III, A English Lang. Acquisition | 289 Summer School LEP | 410 State Textbook Fund | 429 Other State Special Revenue Funds |
|---|-------------------------------------|---|--|---|-----------------------------|----------------------------------|--|
| \$ 219,037 | \$ 343 | \$ - | \$ - | \$ - | \$ - | \$ 69 | \$ - |
| 32,733 | 284 | - | - | - | - | 191,710 | 1,750 |
| 582,872 | 6,205 | - | 22,834 | 9,914 | 1,113 | - | - |
| <u>834,642</u> | <u>6,832</u> | <u>-</u> | <u>22,834</u> | <u>9,914</u> | <u>1,113</u> | <u>191,779</u> | <u>1,750</u> |
| - | - | - | 22,834 | 9,914 | 1,113 | 188,008 | - |
| 830,432 | 6,183 | - | - | - | - | - | - |
| <u>830,432</u> | <u>6,183</u> | <u>-</u> | <u>22,834</u> | <u>9,914</u> | <u>1,113</u> | <u>188,008</u> | <u>-</u> |
| 4,210 | 649 | - | - | - | - | 3,771 | 1,750 |
| 80,038 | 2,665 | - | - | - | - | 562 | - |
| <u>\$ 84,248</u> | <u>\$ 3,314</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 4,333</u> | <u>\$ 1,750</u> |

FARMERSVILLE 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 | Total Nonmajor Special Revenue Funds | 699 Capital Projects Fund | Total Nonmajor Governmental Funds |
|--------------------------|---|------------------------------------|--|
| REVENUES: | | | |
| 570 | Total Local and Intermediate Sources | \$ 219,449 | \$ 219,480 |
| 580 | State Program Revenues | 226,477 | 226,477 |
| 590 | Federal Program Revenues | 1,155,995 | 1,155,995 |
| 5020 | Total Revenues | <u>1,601,921</u> | <u>1,601,952</u> |
| EXPENDITURES: | | | |
| Current: | | | |
| 001 | Instruction | 754,926 | 754,926 |
| 003 | Food Services | 836,615 | 836,615 |
| 6030 | Total Expenditures | <u>1,591,541</u> | <u>1,591,541</u> |
| 1200 | Net Change in Fund Balance | 10,380 | 10,411 |
| 0100 | Fund Balance - September 1 (Beginning) | <u>83,265</u> | <u>94,915</u> |
| 3000 | Fund Balance - August 31 (Ending) | <u>\$ 93,645</u> | <u>\$ 105,326</u> |

FARMERSVILLE 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-3

| | <u>2016</u> | <u>2015</u> |
|---|---------------------|---------------------|
| District's Proportion of the Net Pension Liability (Asset) | 0.0078567% | 0.0047505% |
| District's Proportionate Share of Net Pension Liability (Asset) | \$ 2,777,239 | \$ 1,268,924 |
| State's Proportionate Share of the Net Pension Liability (Asset) associated with the District | 5,061,816 | 4,495,714 |
| Total | <u>\$ 7,839,055</u> | <u>\$ 5,764,638</u> |
| District's Covered-Employee Payroll | \$ 8,081,997 | \$ 7,911,155 |
| District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll | 34.36% | 16.04% |
| 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."

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

EXHIBIT G-4

| | 2016 | 2015 |
|---|--------------|--------------|
| Contractually Required Contribution | \$ 246,856 | \$ 235,403 |
| Contribution in Relation to the Contractually Required Contribution | (246,856) | (235,403) |
| Contribution Deficiency (Excess) | \$ -0- | \$ -0- |
| District's Covered-Employee Payroll | \$ 8,645,127 | \$ 8,081,997 |
| Contributions as a Percentage of Covered-Employee Payroll | 2.86% | 2.91% |

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

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

OTHER SUPPLEMENTAL INFORMATION

FARMERSVILLE 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 | \$ 546,898,485 |
| 2008 | 1.040000 | 0.27000 | 305,414,275 |
| 2009 | 1.040000 | 0.24000 | 322,882,969 |
| 2010 | 1.040000 | 0.27000 | 332,343,329 |
| 2011 | 1.170000 | 0.14000 | 326,775,539 |
| 2012 | 1.170000 | 0.17000 | 325,604,465 |
| 2013 | 1.170000 | 0.20000 | 326,666,245 |
| 2014 | 1.170000 | 0.23000 | 336,739,896 |
| 2015 | 1.170000 | 0.26000 | 362,898,798 |
| 2016 (School year under audit) | 1.170000 | 0.26000 | 389,821,851 |
| 100 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 |
|--|---|------------------------------------|-------------------------------------|---|--|
| \$ 206,683 | \$ - | \$ 6,394 | \$ 1,160 | \$ (7,690) | \$ 191,439 |
| 25,192 | - | 1,553 | 403 | - | 23,236 |
| 30,955 | - | 2,679 | 618 | - | 27,658 |
| 52,513 | - | 2,636 | 684 | - | 49,193 |
| 52,530 | - | 3,581 | 428 | - | 48,521 |
| 57,613 | - | 4,441 | 645 | (493) | 52,034 |
| 68,391 | - | 11,431 | 1,954 | (3,240) | 51,766 |
| 72,039 | - | 17,627 | 3,465 | (1,100) | 49,847 |
| 148,798 | - | 47,814 | 10,662 | (12,035) | 78,287 |
| - | 5,572,492 | 4,468,565 | 991,092 | 8,505 | 121,340 |
| <u>\$ 714,714</u> | <u>\$ 5,572,492</u> | <u>\$ 4,566,721</u> | <u>\$ 1,011,111</u> | <u>\$ (16,053)</u> | <u>\$ 693,321</u> |

FARMERSVILLE 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 | \$ 265,500 | \$ 265,500 | \$ 219,037 | \$ (46,463) |
| 5800 | State Program Revenues | 34,700 | 34,700 | 32,733 | (1,967) |
| 5900 | Federal Program Revenues | 520,853 | 520,853 | 582,872 | 62,019 |
| 5020 | Total Revenues | 821,053 | 821,053 | 834,642 | 13,589 |
| EXPENDITURES: | | | | | |
| 0035 | Food Services | 834,553 | 834,553 | 830,432 | 4,121 |
| 6030 | Total Expenditures | 834,553 | 834,553 | 830,432 | 4,121 |
| 1200 | Net Change in Fund Balances | (13,500) | (13,500) | 4,210 | 17,710 |
| 0100 | Fund Balance - September 1 (Beginning) | 80,038 | 80,038 | 80,038 | - |
| 3000 | Fund Balance - August 31 (Ending) | \$ 66,538 | \$ 66,538 | \$ 84,248 | \$ 17,710 |

FARMERSVILLE 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 | \$ 941,771 | \$ 941,771 | \$ 1,030,578 | \$ 88,807 |
| 5800 | State Program Revenues | 341,779 | 341,779 | 463,324 | 121,545 |
| 5020 | Total Revenues | 1,283,550 | 1,283,550 | 1,493,902 | 210,352 |
| EXPENDITURES: | | | | | |
| Debt Service: | | | | | |
| 0071 | Principal on Long Term Debt | 915,000 | 915,000 | 915,000 | - |
| 0072 | Interest on Long Term Debt | 363,550 | 363,550 | 363,550 | - |
| 0073 | Bond Issuance Cost and Fees | 5,000 | 5,000 | 1,250 | 3,750 |
| 6030 | Total Expenditures | 1,283,550 | 1,283,550 | 1,279,800 | 3,750 |
| 1200 | Net Change in Fund Balances | - | - | 214,102 | 214,102 |
| 0100 | Fund Balance - September 1 (Beginning) | 58,307 | 58,307 | 58,307 | - |
| 3000 | Fund Balance - August 31 (Ending) | \$ 58,307 | \$ 58,307 | \$ 272,409 | \$ 214,102 |

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FEDERAL AWARDS SECTION

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EVANS, PINGLETON and HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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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*

Board of Trustees

Farmersville Independent School District

612 E. Bethany Drive

Farmersville, Texas 75002

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, the business-type activities, each major fund, and the aggregate remaining fund information of Farmersville Independent School District, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise Farmersville Independent School District's basic financial statements, and have issued our report thereon dated December 7, 2015.

Internal Control Over Financial Reporting

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

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

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

Compliance & Other Matters

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

Purpose of this Report

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

Evans, Pingleton and Howard, PLLC

Evans, Pingleton and Howard, PLLC
Frisco, TX
November 29, 2016

EVANS, PINGLETON and HOWARD, PLLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Trustees

Farmersville Independent School District

612 E. Bethany Drive

Farmersville, Texas 75002

Report on Compliance for Each Major Federal Program

We have audited Farmersville 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 Farmersville Independent School District's major federal programs for the year ended August 31, 2016. Farmersville 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 Farmersville 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 Farmersville 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 Farmersville Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Farmersville 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.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance, which is required to be reported in accordance with the Uniform Guidance. Our opinion on each major federal program is not modified with respect to these matters.

Report on Internal Control Over Compliance

Management of Farmersville 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 Farmersville 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 Farmersville 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.

Evans, Pingleton and Howard, PLLC

Evans, Pingleton and Howard, PLLC
Frisco, TX
November 29, 2016

FARMERSVILLE 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 DEFENSE | | | |
| <u>Passed Through Collin County, Texas</u> | | | |
| Federal Flood Control | 12.106 | | \$ 9,894 |
| Total Passed Through Collin County, Texas | | | \$ 9,894 |
| TOTAL U.S. DEPARTMENT OF DEFENSE | | | \$ 9,894 |
| U.S. DEPARTMENT OF EDUCATION | | | |
| <u>Direct Programs</u> | | | |
| Impact Aid | 84.041 | 53-TX-2016-2711 | \$ 104,045 |
| Total Direct Programs | | | \$ 104,045 |
| <u>Passed Through Education Service Center, Region X</u> | | | |
| ESEA, Title I, Part A - Improving Basic Programs | 84.010A | 16610101043904 | \$ 231,859 |
| ESEA, Title II, Part A, Teacher/Principal Training | 84.367A | 15694501057950 | 22,834 |
| Title III, Part A - English Language Acquisition | 84.365A | 15671001057950 | 9,914 |
| Total Passed Through Education Service Center, Region X | | | \$ 264,607 |
| <u>Passed Through State Department of Education</u> | | | |
| IDEA - Part B, Formula | 84.027A | 166600010439046000 | \$ 259,665 |
| IDEA - Part B, Preschool | 84.173A | 166610010439046000 | 7,628 |
| Total Special Education Cluster (IDEA) | | | 267,293 |
| Summer School LEP | 84.369A | 69551502 | 1,113 |
| Total Passed Through State Department of Education | | | \$ 268,406 |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | | \$ 637,058 |
| U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | |
| <u>Passed Through Education Service Center, Region X</u> | | | |
| Head Start | 93.600 | 07CH0391/22 | \$ 33,905 |
| Total Passed Through Education Service Center, Region X | | | \$ 33,905 |
| TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES | | | \$ 33,905 |
| U.S. DEPARTMENT OF AGRICULTURE | | | |
| <u>Passed Through the State Department of Agriculture</u> | | | |
| *School Breakfast Program | 10.553 | 71401601 | \$ 141,009 |
| *National School Lunch Program | 10.555 | 71301601 | 441,863 |
| Total Child Nutrition Cluster | | | 582,872 |
| Summer Feeding Program | 10.559 | | 6,205 |
| Total Passed Through the State Department of Agriculture | | | \$ 589,077 |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | | \$ 589,077 |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | \$ 1,269,934 |

*Denotes Major Program

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT

Notes to Schedule of Expenditures of Federal Awards

For Year Ended August 31, 2016

1. For all federal programs, the District uses the fund types specified in Texas Education Agency's "Financial Accountability System Resource Guide." Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance is generally accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund that is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.

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. 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 expenditures until earned.

3. The District participates in numerous Federal grant programs that 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, in any, refunds of any money received may be required and the collectability of any related receivable at August 31, 2016, may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provisions have been recorded in the accompanying financial statements for such contingencies.

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For Year Ended August 31, 2016

I. Summary of Auditor's Results

1. The auditor's report expresses an unmodified opinion on the financial statements.
2. No significant deficiencies were disclosed during the audit of the financial statements. No material weaknesses are reported.
3. No issues of noncompliance which is required to be reported in accordance with Government Auditing Standards, was disclosed during the audit.
4. No deficiencies in internal controls over major federal award programs were disclosed during the audit.
5. The auditor's report on compliance for the major federal award programs expresses an unmodified opinion on all major federal programs.
6. The programs tested as major programs were:
National School Breakfast and Lunch Program, 10.553 & 10.555
7. The dollar threshold used to distinguish between Type A and Type B programs was \$750,000.
8. Auditee was not determined to be a low-risk auditee.

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT
Schedule of Findings and Questioned Costs
For Year Ended August 31, 2016

Federal Findings:

None

FARMERSVILLE INDEPENDENT SCHOOL DISTRICT
Corrective Action Plan
For Year Ended August 31, 2016

Program _____

Status _____

N/A