

**SWEENY
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
AUGUST 31, 2016**

**KENNEMER, MASTERS & LUNSFORD, LLC
CERTIFIED PUBLIC ACCOUNTANTS
8 WEST WAY COURT
LAKE JACKSON, TEXAS 77566**

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SWEENY INDEPENDENT SCHOOL DISTRICT

Annual Financial Report For the Year Ended August 31, 2016

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Annual Financial Report For the Year Ended August 31, 2016

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INTRODUCTORY SECTION

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CERTIFICATE OF BOARD

Sweeny Independent School District
Name of School District

Brazoria
County

020-906
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) ☒ approved _____ disapproved for the year ended August 31, 2016, at a meeting of the board of trustees of such school district on the 10th day of January, 2017.


Signature of Board Secretary


Signature of Board President

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

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FINANCIAL SECTION

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Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

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Lake Jackson, Texas 77566
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Independent Auditor's Report

To the Board of Trustees
Sweeny Independent School District
Sweeny, Texas 77480

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sweeny Independent School District (the "District") as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 15 through 24, budgetary comparison information on page 76, and the required pension schedules on pages 77 and 78 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 District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements and the required Texas Education Agency schedules, 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* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, required Texas Education Agency schedules, 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, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements, the required Texas Education Agency schedules, 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.

Board of Trustees
Sweeny Independent School District
Sweeny, Texas 77480
Page 3

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Henneman, Masters & Hunford, LLC

Lake Jackson, Texas
December 14, 2016

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SWEENEY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2016

As management of the Sweeny Independent School District (the "District"), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended August 31, 2016. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the District exceeded its liabilities and deferred inflows of resources at the close of the most recent period by \$ 32,265,054 (*net position*). Of this amount, \$ 5,498,314 (*unrestricted net position*) may be used to meet the District's ongoing obligations.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 15,897,299. Approximately 23 percent of this total amount, \$ 3,692,200 is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$ 3,692,200, or 19 percent of the total general fund expenditures.
- During the year, the District had expenses that were \$ 1,226,034 less than the \$ 25,860,031 generated in tax and other revenues for governmental activities. This compares to last year when expenses were more than revenue by \$ 858,567.
- During the year, the District reported net pension liability of \$ 2,259,381, at August 31, 2016, this compares to last year's August 31, 2015 balance of \$ 1,744,788 with the implementation of GASB Statements Nos. 68 and 71.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the District's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference being reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (*governmental activities*) as opposed to *business-type activities* that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no *business-type activities*. The government-wide financial statements can be found on pages 26 through 27 of this report.

SWEENEY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2016

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The fund financial statements provide more detailed information about the District's most significant funds, not the District as a whole.

- Some funds are required by State law and/or bond covenants.
- Other funds may be established by the Board to control and manage money for particular purposes or to show that it is properly using certain taxes or grants.

All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. The District maintains eighteen governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, Sweeny Independent School District Education Foundation (blended component unit), debt service fund, and capital projects fund; all of which are considered to be major funds. Data from the other fourteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report. The District adopts an annual appropriated budget for its general fund, food service special revenue fund, and debt service fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets. The basic governmental fund financial statements can be found on pages 28 through 34 of this report.
- **Fiduciary funds.** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The District is the trustee, or *fiduciary*, for these funds and 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 that can be found on pages 35 and 36. These activities are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

SWEENEY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2016

Notes to the financial statements. The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 38 through 74 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on pages 76 through 78 of this report.

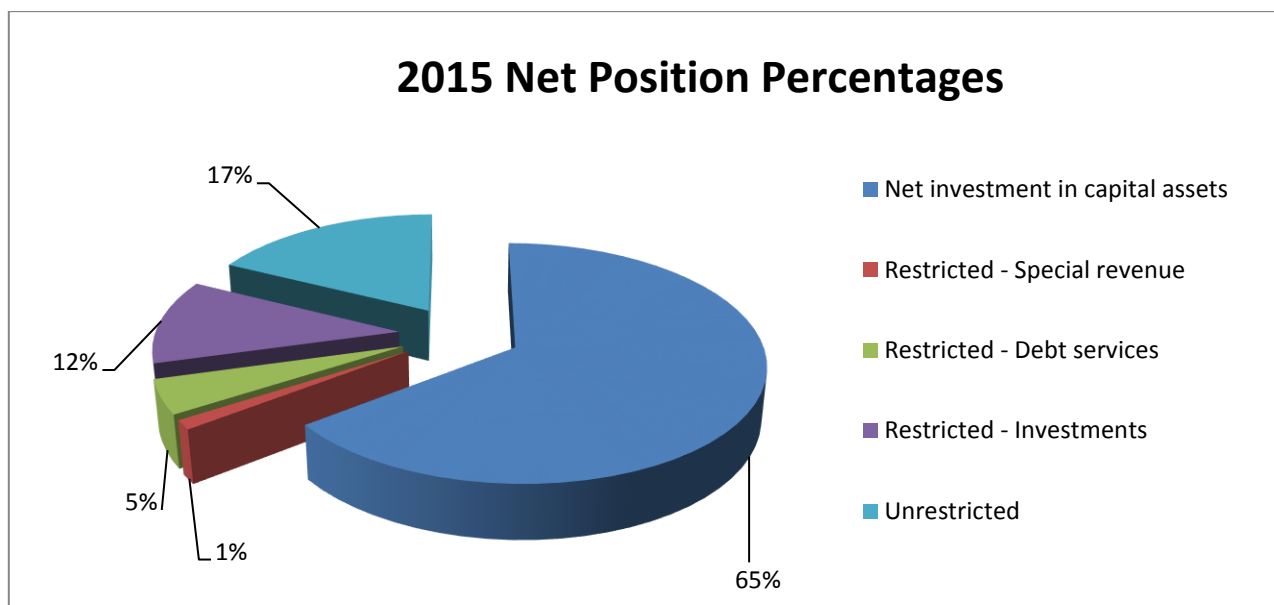
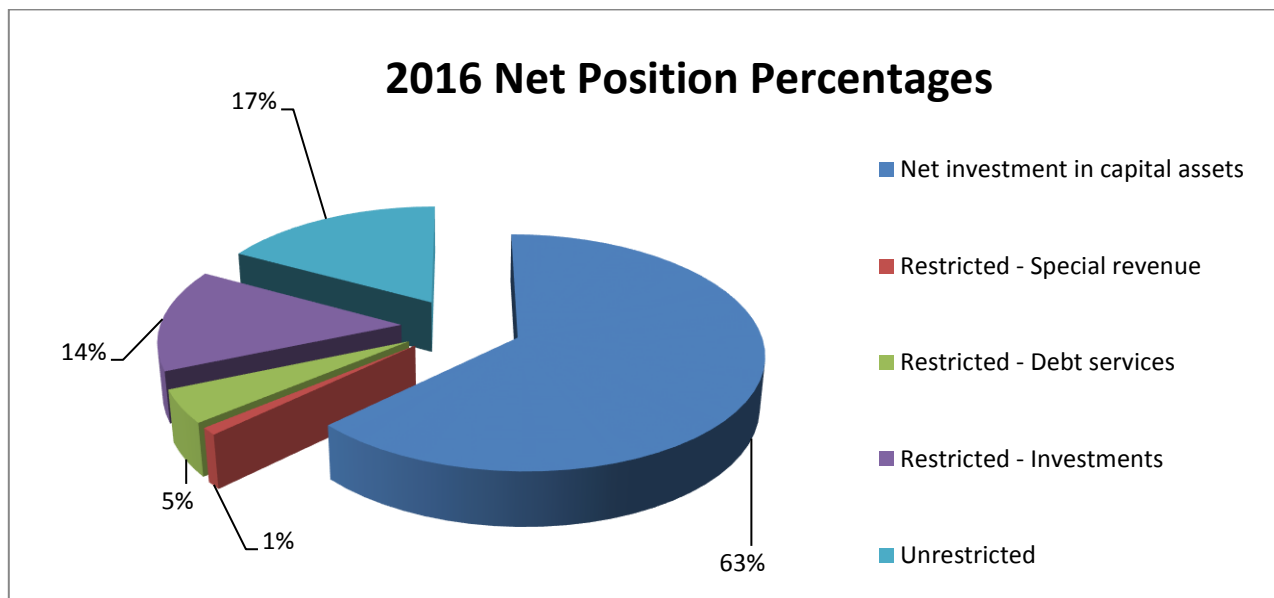
The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. Combining statements can be found on pages 80 through 86 of this report. Other schedules are to be found on pages 88 - 92 of this report.

Government-wide Financial Analysis

Net position. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$ 32,265,054 as of August 31, 2016. Net position of the District's governmental activities increased from \$ 31,039,020 to \$ 32,265,054.

The District's Net Position

| | August 31, 2016 | August 31, 2015 |
|-----------------------------------|----------------------|----------------------|
| Current and other assets | \$ 19,205,460 | \$ 22,240,740 |
| Capital assets | <u>63,622,177</u> | <u>50,621,199</u> |
| Total assets | <u>82,827,637</u> | <u>72,861,939</u> |
| Deferred outflows of resources | <u>1,594,281</u> | <u>1,078,108</u> |
| Long-term liabilities outstanding | 48,414,546 | 39,146,777 |
| Other liabilities | <u>3,157,811</u> | <u>3,369,387</u> |
| Total liabilities | <u>51,572,357</u> | <u>42,516,164</u> |
| Deferred inflows of resources | <u>584,507</u> | <u>384,863</u> |
| Net Position: | | |
| Net investment in capital assets | 20,320,092 | 20,080,744 |
| Restricted | 6,446,648 | 5,481,791 |
| Unrestricted | <u>5,498,314</u> | <u>5,476,485</u> |
| Total net position | <u>\$ 32,265,054</u> | <u>\$ 31,039,020</u> |



Investment in capital assets (e.g., land and land improvements, buildings and building improvements, furniture, equipment, and vehicles) less any related debt used to acquire those assets that is still outstanding is \$ 20,320,092. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the District's net position (approximately 20 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* \$ 5,498,314 may be used to meet the District's ongoing obligations. This surplus is not an indication that the District has significant resources available to meet financial obligations next year, but rather the result of having *long-term* commitments that are less than currently available resources.

SWEENEY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2016

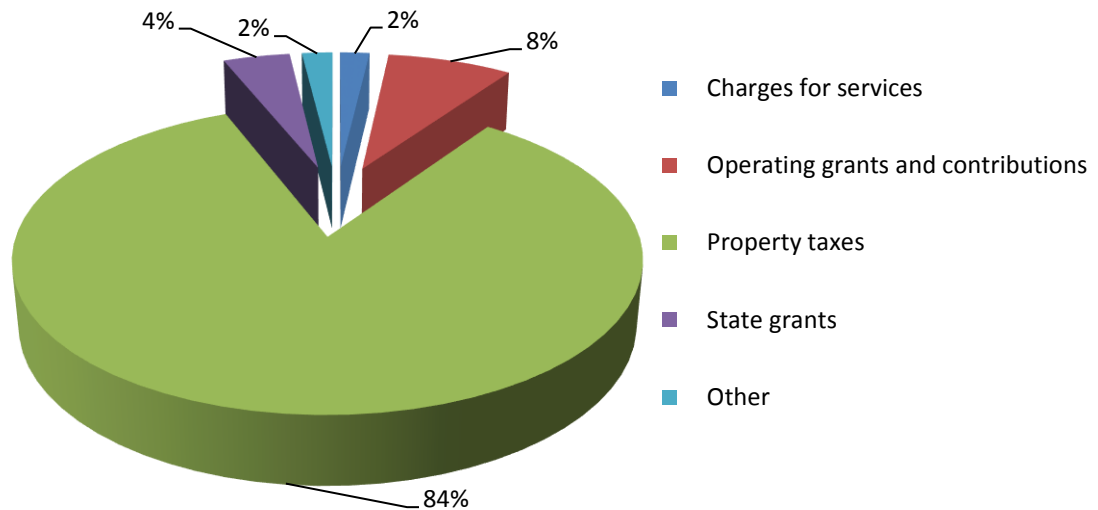
Governmental activities. The District's total net position increased by \$ 1,226,034. The total cost of all *governmental activities* this year was \$ 24,633,997. The amount that our taxpayers paid for these activities through property taxes was \$ 21,799,376 or 88%. The amount of costs that were paid by those who directly benefited from the programs was \$ 481,675 or 2%. The costs that were paid by other governments and organizations that subsidized certain programs with grants and contributions or by some state equalization funding was \$ 2,043,171 or 8% and \$ 1,093,025 or 4%, respectively.

Changes in the District's Net Position

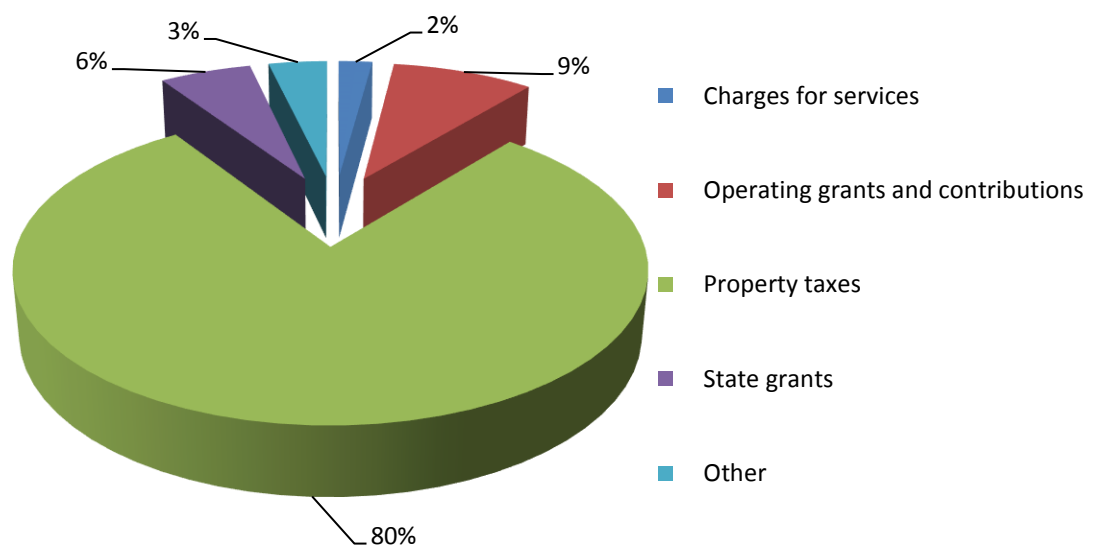
| | August 31, 2016 | August 31, 2015 |
|--|----------------------|----------------------|
| Revenues: | | |
| Program Revenues: | | |
| Charges for services | \$ 481,675 | \$ 464,381 |
| Operating grants & contributions | 2,043,171 | 1,953,153 |
| General revenues: | | |
| Property taxes | 21,799,376 | 17,574,796 |
| State grants | 1,093,025 | 1,262,556 |
| Other | 442,784 | 806,033 |
| Total revenues | <u>25,860,031</u> | <u>22,060,919</u> |
| Expenses: | | |
| Instruction | 11,524,448 | 10,928,678 |
| Instructional resources & media services | 263,958 | 252,750 |
| Curriculum & staff development | 224,359 | 77,471 |
| Instructional leadership | 556,672 | 594,014 |
| School leadership | 1,132,317 | 1,000,500 |
| Guidance, counseling & evaluation services | 629,195 | 615,285 |
| Health services | 249,203 | 227,143 |
| Student (pupil) transportation | 934,066 | 878,709 |
| Food services | 1,175,002 | 1,108,283 |
| Extracurricular activities | 1,085,657 | 954,627 |
| General administration | 840,365 | 762,142 |
| Facilities maintenance and operations | 2,487,103 | 2,148,373 |
| Security and monitoring services | 103,073 | 64,622 |
| Data processing services | 440,621 | 261,417 |
| Community services | 8,935 | 9,259 |
| Debt service-interest and fees on long-term debt | 1,405,465 | 1,011,803 |
| Contracted instructional services | 1,417,833 | 1,406,902 |
| Payments related to shared services arrangements | 7,646 | 489,899 |
| Other intergovernmental charges | 148,079 | 127,609 |
| Total expenses | <u>24,633,997</u> | <u>22,919,486</u> |
| Change in net position | 1,226,034 | (858,567) |
| Beginning net position | <u>31,039,020</u> | <u>31,897,587</u> |
| Ending net position | <u>\$ 32,265,054</u> | <u>\$ 31,039,020</u> |

SWEENEY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2016

2016 Revenue Percentages

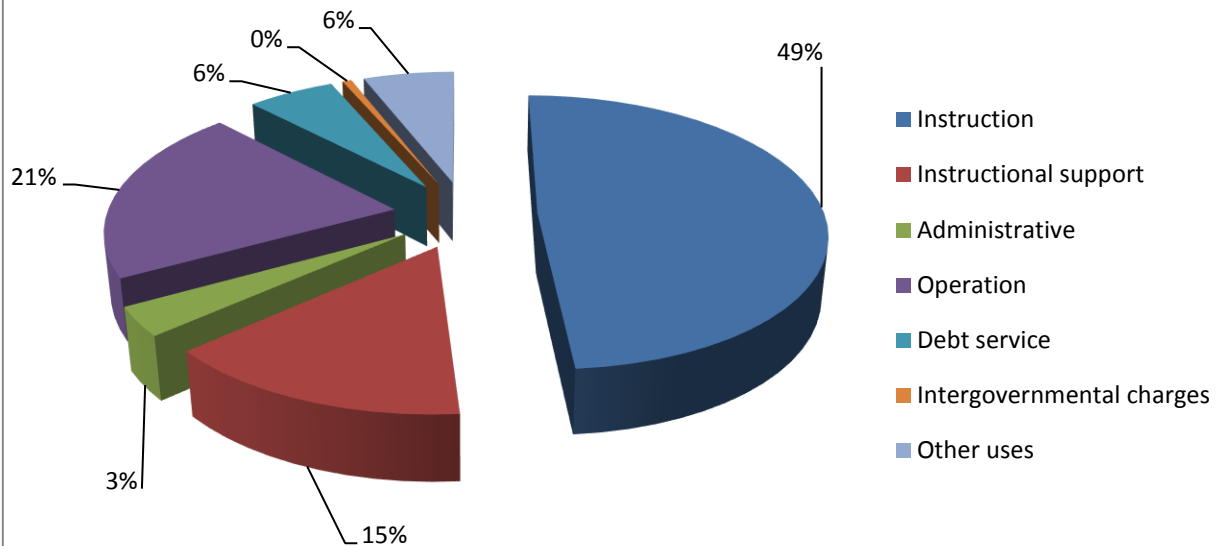


2015 Revenue Percentages

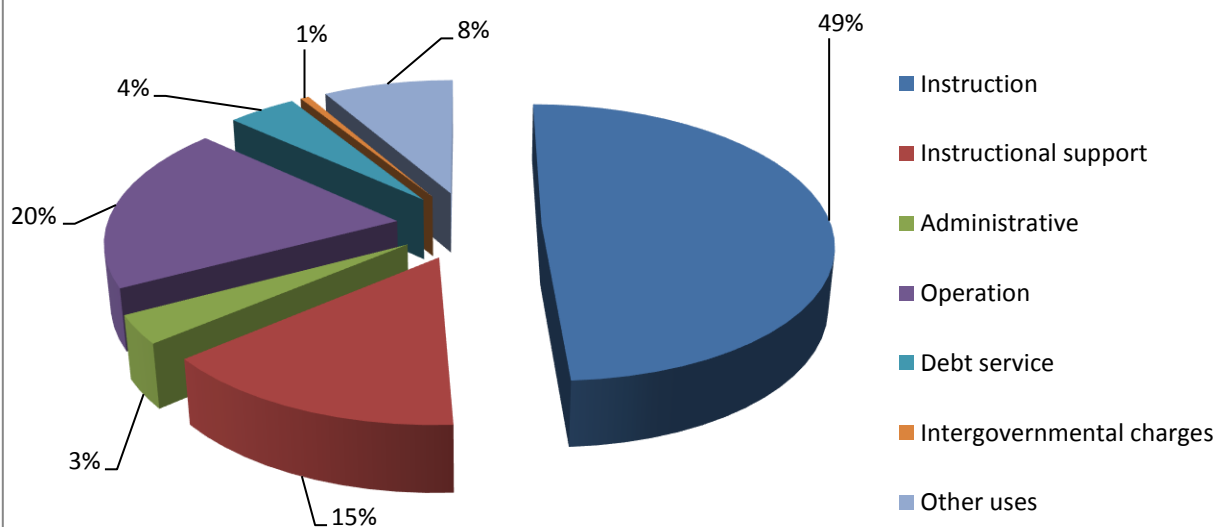


SWEENEY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2016

2016 Expenditure Percentages by Major Classes



2015 Expenditure Percentages by Major Classes



SWEENEY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2016

Financial Analysis of the District's Funds

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

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

At the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$ 15,897,299, a decrease of \$ 2,862,083. Approximately 23 percent of this total amount (\$ 3,692,200) constitutes *unassigned fund balance*. The remainder of fund balance is non-spendable, restricted, committed, or assigned to indicate that it is not available for new spending because it has already been classified 1) for inventory \$ 88,873, 2) for prepaid items \$ 175,452, 3) for grant funds \$ 286,016, 4) to pay debt service \$ 1,470,036, 5) for construction \$ 2,133,936, 6) for long-term investments \$ 4,625,880, 7) for claims and judgments \$ 250,000, 8) for capital expenditures for equipment \$ 350,000, 9) for other miscellaneous commitments \$ 348,191, and 10) for other assignment \$ 2,476,715.

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 3,692,200, while the total fund balance was \$ 6,990,823. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance and total fund balance to the total fund expenditures. Unassigned fund balance represents 19 percent of the total general fund expenditures, while total fund balance represents 36 percent of that same amount.

The fund balance of the District's general fund increased \$ 1,478,257 or 27% during the current fiscal year compared to last year's total general fund balance of \$ 5,512,566. Revenues increased from prior year approximately \$ 3,583,141 or 21%. Expenditures increased approximately 13% from prior year from \$ 17,398,189 to \$ 19,600,758. Key factors related to this change were as follows:

- Instruction cost increased \$ 882,276 from the prior year.
- Extracurricular activities cost increased \$ 470,902 from prior year.
- Facilities maintenance and operation cost increased \$ 518,374 from prior year.

The Sweeny Education Foundation fund has a total fund balance of \$ 4,974,071, of which \$ 4,625,880 is restricted for long-term investment and \$ 348,191 is committed for other purposes. The net decrease in fund balance during the period in the Sweeny Education Foundation fund was \$ 360,908. The decrease in fund balance was mainly due to \$ 500,830 of funds transferred to other district's funds.

The debt service fund has a total fund balance of \$ 1,470,036 all of which is restricted for the payment of debt service. The net increase in fund balance during the period in the debt service fund was \$ 24,402. The increase in fund balance was mainly due to the premium on issuance of bonds.

The capital projects fund has a total fund balance of \$ 2,133,936 all of which is restricted for capital acquisitions. The capital projects fund balance decreased by \$ 3,935,977 due to the facilities acquisition and construction.

SWEENEY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2016

General Fund Budgetary Highlights

Over the course of the year, the District recommended and the Board approved revisions to budgeted revenue and appropriations. These amendments fall into the following categories:

- Amendments approved shortly after the beginning of the new fiscal period for amounts reserved and designated in the prior year.
- Amendments to budget for donations received during the period.
- Amendment for maintenance note issuance costs.
- Amendments during the period for unexpected occurrences.

Following is a summary of amendments made to appropriations:

- \$ 67,500 for maintenance note issuance cost.
- \$ 612,216 of donations received during the period.
- \$ 50,000 for additional legal expenses.
- \$ 101,842 for Petrochemical academy related budget.

After appropriations were amended as described above, actual revenues were less than the final budget by \$ 274,690 mainly due to decrease in state program revenue. Actual expenditures were \$ 1,982,740 below final budget amounts. The major portion of this positive variance was due to the decreases in expenditures in instruction, guidance, counseling, and evaluation services, student transportation, facility maintenance and operations, and contracted instructional services.

Capital Asset and Debt Administration

Capital assets. The District's investments in capital assets for its governmental activities as of August 31, 2016 amounts to \$ 63,622,177 (net of accumulated depreciation). This investment in capital assets includes land and land improvements, buildings and improvements, furniture, equipment and vehicles, and construction in progress.

District's Capital Assets
(net of depreciation)

| | August, 31 2016 | August 31, 2015 |
|-----------------------------------|----------------------|----------------------|
| Land and land improvements | \$ 1,773,738 | \$ 1,824,908 |
| Buildings and improvements | 35,954,228 | 33,785,775 |
| Furniture, equipment and vehicles | 2,648,996 | 1,342,349 |
| Construction in progress | <u>23,245,215</u> | <u>13,668,167</u> |
| Total at historical cost | <u>\$ 63,622,177</u> | <u>\$ 50,621,199</u> |

Additional information on the District's capital assets can be found in Note 5 on page 59 through 60 of this report.

SWEENEY INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
AUGUST 31, 2016

Long-term debt. At August 31, 2016, the District had total long-term debt outstanding of \$ 48,414,546, an increase of \$ 9,267,769 from the previous year, primarily due to the issuance of general obligation bonds. Long-term debt is made up of the following:

| | August 31, 2016 | August 31, 2015 |
|-------------------------------------|----------------------|----------------------|
| General obligation bonds | \$ 44,232,851 | \$ 36,044,689 |
| Net pension obligation | 2,259,381 | 1,744,788 |
| Components of Long-Term Debt: | | |
| Premium on general obligation bonds | 1,815,596 | 1,276,477 |
| Accrued interest payable | <u>106,718</u> | <u>80,823</u> |
| Total long-term debt | <u>\$ 48,414,546</u> | <u>\$ 39,146,777</u> |

Additional information on the District's long-term debt can be found in Note 6 on pages 60 through 63 of this report.

Economic Factors and Next Year's Budgets and Rates

- Appraised values used for the 2016-17 budget increased \$ 298,728,212 or 16.39% from 2015-16 values.
- The District's 2016-2017 refined average daily attendance is expected to be 1,888.
- The District's attendance rate is estimated to be 97%.
- The total Maintenance and Operations revenue budget is \$ 23,977,030. The revenue breakdown is \$ 21,997,825 from local funds, \$ 1,758,604 from state funds and \$ 220,601 from federal funds.
- The District has adopted a deficit budget of \$(1,370,647). The District has appropriated General Fund revenues of \$ 23,977,030 and expenditures of \$ 25,347,677 which includes recapture expenditures of \$ 5,390,120.
- The 2016-17 District tax rate will remain the same as 2015-16 tax rate at \$ 1.2117 (\$ 1.04 for Maintenance and Operations and \$ 0.1717 for Interest and Sinking).
- For 2016-17, the District has budgeted pay increase of 3% of the mid-point salary.
- Excluding recapture the 2016 employment salaries amount to 79.0% of the General Fund budget.
- The District funds \$ 264 per employee per month for health insurance, \$ 39.80 for dental insurance, \$ 2.10 for \$ 20,000 life insurance. Also the District is continuing to fund the \$ 500 health supplement benefit for all non-administrator employees; the District funds \$ 1,000 in health supplemental benefits for Administrators.

Requests for Information

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances as well as demonstrate accountability for funds the District receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director, Business Services, Sweeny Independent School District, 1310 North Elm, Sweeny, Texas, 77480.

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

Exhibit A-1
Page 1 of 1

| <u>Data Control Codes</u> | | <u>Governmental Activities</u> |
|-----------------------------------|--|------------------------------------|
| | ASSETS: | |
| 1110 | Cash and cash equivalents | \$ 12,081,859 |
| 1120 | Current investments | 437,715 |
| 1220 | Taxes receivables - delinquent | 584,228 |
| 1230 | Allowance for uncollectible taxes | (397,290) |
| 1240 | Due from other governments | 1,550,514 |
| 1250 | Accrued interest | 8,771 |
| 1260 | Internal balances | 5,202 |
| 1290 | Other receivables (net) | 35,506 |
| 1300 | Inventories | 88,873 |
| 1410 | Prepaid items | 184,202 |
| | Capital Assets: | |
| 1510 | Land and land improvements | 1,773,738 |
| 1520 | Buildings and improvements, net | 35,954,228 |
| 1530 | Furniture, equipment and vehicles, net | 2,648,996 |
| 1580 | Construction in progress | 23,245,215 |
| 1910 | Investments | <u>4,625,880</u> |
| 1000 | Total assets | <u>82,827,637</u> |
| | DEFERRED OUTFLOWS OF RESOURCES: | |
| 1700 | Deferred outflows of resources | <u>1,594,281</u> |
| | Total deferred outflows of resources | <u>1,594,281</u> |
| | LIABILITIES: | |
| 2110 | Accounts payable | 1,943,596 |
| 2160 | Accrued wages payable | 862,593 |
| 2180 | Payable to other governments | 283,996 |
| 2300 | Unearned revenue | 67,626 |
| | Noncurrent Liabilities: | |
| 2501 | Due within one year | 3,006,523 |
| 2502 | Due in more than one year | <u>45,408,023</u> |
| 2000 | Total liabilities | <u>51,572,357</u> |
| | DEFERRED INFLOWS OF RESOURCES | |
| 2600 | Deferred inflows of resources | <u>584,507</u> |
| | Total deferred inflows of resources | <u>584,507</u> |
| | NET POSITION: | |
| 3200 | Net investment in capital assets | 20,320,092 |
| | Restricted For: | |
| 3820 | Federal and state programs | 328,433 |
| 3850 | Debt service | 1,492,335 |
| 3890 | Long-term investments | 4,625,880 |
| 3900 | Unrestricted | <u>5,498,314</u> |
| 3000 | Total net position | <u>\$ 32,265,054</u> |

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

SWEENEY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2016

Exhibit B-1
Page 1 of 1

| Data Control Codes | Functions/Programs | 1 Expenses | Program Revenues | | Net (Expense) Revenue and Changes in Net Position |
|--------------------------|--|-------------------|----------------------------------|---|--|
| | | | 3 Charges for Services | 4 Operating Grants and Contributions | |
| | GOVERNMENTAL ACTIVITIES: | | | | |
| 11 | Instruction | \$ 11,524,448 | \$ | \$ 1,025,417 | \$(10,499,031) |
| 12 | Instructional resources and media services | 263,958 | | 10,147 | (253,811) |
| 13 | Curriculum and staff development | 224,359 | | 35,230 | (189,129) |
| 21 | Instructional leadership | 556,672 | | 67,085 | (489,587) |
| 23 | School leadership | 1,132,317 | | 55,182 | (1,077,135) |
| 31 | Guidance, counseling, and evaluation services | 629,195 | | 71,256 | (557,939) |
| 33 | Health services | 249,203 | | 12,559 | (236,644) |
| 34 | Student (pupil) transportation | 934,066 | | 30,692 | (903,374) |
| 35 | Food services | 1,175,002 | 392,743 | 622,261 | (159,998) |
| 36 | Extracurricular activities | 1,085,657 | 88,932 | 27,206 | (969,519) |
| 41 | General administration | 840,365 | | 27,762 | (812,603) |
| 51 | Facilities maintenance and operations | 2,487,103 | | 27,889 | (2,459,214) |
| 52 | Security and monitoring services | 103,073 | | 3,882 | (99,191) |
| 53 | Data processing services | 440,621 | | 18,957 | (421,664) |
| 61 | Community services | 8,935 | | | (8,935) |
| 72 | Interest on long-term debt | 1,200,711 | | | (1,200,711) |
| 73 | Bond issuance costs and fees | 204,754 | | | (204,754) |
| 91 | Contracted instructional services | 1,417,833 | | | (1,417,833) |
| 93 | Payments related to shared services arrangements | 7,646 | | 7,646 | -0- |
| 99 | Other intergovernmental charges | 148,079 | | | (148,079) |
| TG | Total governmental activities | \$ 24,633,997 | \$ 481,675 | \$ 2,043,171 | \$(22,109,151) |
| | General Revenues: | | | | |
| | Taxes: | | | | |
| MT | Property taxes, levied for general purposes | | | | \$ 18,712,296 |
| DT | Property taxes, levied for debt service | | | | 3,087,080 |
| SF | State aid-formula grants | | | | 1,093,025 |
| GC | Grants and contributions not restricted to specific programs | | | | 61,293 |
| IE | Investment earnings | | | | 212,213 |
| MI | Miscellaneous | | | | 169,278 |
| TG | Total general revenues, special items, and other uses | | | | 23,335,185 |
| CN | Change in net position | | | | 1,226,034 |
| NB | Net position – beginning | | | | 31,039,020 |
| NE | Net position – ending | | | | \$ 32,265,054 |

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

SWEENEY INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
AUGUST 31, 2016

| Data Control Codes | Functions/Programs | 10 General Fund | 40 Sweeny Education Foundation | 50 Debt Service Fund | 60 Capital Projects Fund |
|---|--|-----------------------|---|-------------------------------|-----------------------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES: | | | | | |
| Assets: | | | | | |
| 1110 | Cash and cash equivalents | \$ 6,647,965 | \$ 774,364 | \$ 1,028,610 | \$ 3,271,404 |
| 1120 | Current investments | | | 437,715 | |
| 1220 | Taxes receivable - delinquent | 508,937 | | 75,291 | |
| 1230 | Allowance for uncollectible taxes (credit) | (349,367) | | (47,923) | |
| 1240 | Receivables from other governments | 1,413,140 | | | |
| 1250 | Accrued interest receivable | | 8,771 | | |
| 1260 | Due from other funds | 493,832 | | 286 | 112,728 |
| 1290 | Other receivables | 26,966 | | | |
| 1300 | Inventories | 46,456 | | | |
| 1410 | Prepaid items | 175,452 | | | |
| 1910 | Investments | | 4,625,880 | | |
| 1000 | Total assets | <u>8,963,381</u> | <u>5,409,015</u> | <u>1,493,979</u> | <u>3,384,132</u> |
| Deferred Outflows of Resources: | | | | | |
| 1700 | Deferred outflows of resources | | | | |
| | Total deferred outflows of resources | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| 1000A | Total assets and deferred outflows of resources | <u>\$ 8,963,381</u> | <u>\$ 5,409,015</u> | <u>\$ 1,493,979</u> | <u>\$ 3,384,132</u> |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES: | | | | | |
| Liabilities: | | | | | |
| 2110 | Accounts payable | \$ 658,033 | \$ | \$ | \$ 1,250,196 |
| 2160 | Accrued wages payable | 789,464 | | | |
| 2170 | Due to other funds | 113,014 | 434,944 | | |
| 2180 | Payable to other governments | 283,996 | | | |
| 2300 | Unearned revenue | | | 1,644 | |
| 2000 | Total liabilities | <u>1,844,507</u> | <u>434,944</u> | <u>1,644</u> | <u>1,250,196</u> |
| Deferred Inflows of Resources: | | | | | |
| 2600 | Deferred inflows of resources – property taxes | <u>128,051</u> | | <u>22,299</u> | |
| | Total deferred inflows of resources | <u>128,051</u> | <u>-0-</u> | <u>22,299</u> | <u>-0-</u> |
| Fund Balances: | | | | | |
| 3410 | Non-spendable - inventories | 46,456 | | | |
| 3430 | Non-spendable - prepaid items | 175,452 | | | |
| 3450 | Restricted - grant funds | | | | |
| 3470 | Restricted - capital acquisitions and contractual obligations | | | | 2,133,936 |
| 3480 | Restricted - debt service | | | 1,470,036 | |
| 3490 | Restricted - long-term investments | | 4,625,880 | | |
| 3520 | Committed - claims and judgments | 250,000 | | | |
| 3530 | Committed - capital expenditures for equipment | 350,000 | | | |
| 3545 | Committed - other purposes | | 348,191 | | |
| 3590 | Assigned - other | 2,476,715 | | | |
| 3600 | Unassigned | <u>3,692,200</u> | | | |
| 3000 | Total fund balances | <u>6,990,823</u> | <u>4,974,071</u> | <u>1,470,036</u> | <u>2,133,936</u> |
| 4000 | Total liabilities, deferred inflows of resources and fund balances | <u>\$ 8,963,381</u> | <u>\$ 5,409,015</u> | <u>\$ 1,493,979</u> | <u>\$ 3,384,132</u> |

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

| Other Governmental Funds | 98 Total Governmental Funds |
|--------------------------------|--------------------------------------|
| \$ 359,516 | \$ 12,081,859 |
| | 437,715 |
| | 584,228 |
| | (397,290) |
| 137,374 | 1,550,514 |
| | 8,771 |
| 5,183 | 612,029 |
| 8,540 | 35,506 |
| 42,417 | 88,873 |
| 8,750 | 184,202 |
| | <u>4,625,880</u> |
| <u>561,780</u> | <u>19,812,287</u> |
| | <u>-0-</u> |
| <u>-0-</u> | <u>-0-</u> |
| <u>\$ 561,780</u> | <u>\$ 19,812,287</u> |
| | |
| \$ 35,367 | \$ 1,943,596 |
| 73,129 | 862,593 |
| 58,869 | 606,827 |
| | 283,996 |
| <u>65,982</u> | <u>67,626</u> |
| <u>233,347</u> | <u>3,764,638</u> |
| | <u>150,350</u> |
| <u>-0-</u> | <u>150,350</u> |
| | |
| 42,417 | 88,873 |
| | 175,452 |
| 286,016 | 286,016 |
| | 2,133,936 |
| | 1,470,036 |
| | 4,625,880 |
| | 250,000 |
| | 350,000 |
| | 348,191 |
| | 2,476,715 |
| | <u>3,692,200</u> |
| <u>328,433</u> | <u>15,897,299</u> |
| <u>\$ 561,780</u> | <u>\$ 19,812,287</u> |

SWEENEY INDEPENDENT SCHOOL DISTRICT**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
YEAR ENDED AUGUST 31, 2016**

Exhibit C-1R

Page 1 of 1

| | |
|---|----------------------|
| Total fund balances – governmental funds balance sheet (C-1) | \$ 15,897,299 |
| Amounts reported for governmental activities in the statement of net position (A-1) are different because: | |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Capital assets include \$ 105,030,484 in assets less \$ 41,408,307 in accumulated depreciation. | 63,622,177 |
| Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds. Deferred property tax revenues for the general fund and the debt service fund amounted to \$ 128,051 and \$ 22,299, respectively. | 150,350 |
| Payments for pension contributions from the TRS actuary date to the District's year-end are reported as expenditures in the funds and deferred outflows of resources in the governmental activities statement of position | 217,465 |
| Pension deferred outflows of resources of \$ 696,832 less amortization of \$ 39,160 and pension deferred inflows of resources of \$ 733,379 less amortization of \$ 148,872 | 73,165 |
| Other long-term assets are not available to pay for current period expenditures and therefore are deferred in the funds. This is the bond refunding costs which is amortized over the life of the refunding bond, or the refunded bonds, whichever is shorter. The amount is bond refunding costs of \$ 984,893 less accumulated amortization costs of \$ 265,749. | 719,144 |
| Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds increase long-term liabilities in the governmental activities statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds was (premium on sale of bonds of \$ 2,309,961 less amortization cost of \$ 494,365). | (1,815,596) |
| Payables for net pension obligation are not reported in the funds | (2,259,381) |
| Payables for bond principal are not reported in the funds. | (44,232,851) |
| Payables for bond interest are not reported in the funds. | (106,718) |
| Net position of governmental activities – statement of net position (see A-1) | <u>\$ 32,265,054</u> |

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

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SWEENEY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED AUGUST 31, 2016

| Data Control Codes | Functions/Programs | 10 General Fund | 40 Sweeny Education Foundation | 50 Debt Service Fund | 60 Capital Projects Fund |
|--------------------------|---|-----------------------|---|-------------------------------|-----------------------------------|
| | REVENUES: | | | | |
| 5700 | Local and intermediate sources | \$ 18,959,466 | \$ 145,341 | \$ 3,098,671 | \$ 29,642 |
| 5800 | State program revenues | 1,541,057 | | 38,401 | |
| 5900 | Federal program revenues | <u>37,662</u> | | | |
| 5020 | Total revenues | <u>20,538,185</u> | <u>145,341</u> | <u>3,137,072</u> | <u>29,642</u> |
| | EXPENDITURES: | | | | |
| | Current: | | | | |
| 0011 | Instruction | 9,480,253 | | | 141,803 |
| 0012 | Instructional resources and media services | 222,781 | | | 474 |
| 0013 | Curriculum and staff development | 188,353 | | | 635 |
| 0021 | Instructional leadership | 476,937 | | | 2,540 |
| 0023 | School leadership | 1,066,783 | | | 12,530 |
| 0031 | Guidance, counseling, and evaluation services | 559,401 | | | 5,080 |
| 0033 | Health services | 223,253 | | | 2,540 |
| 0034 | Student (pupil) transportation | 722,224 | | | 360,523 |
| 0035 | Food services | | | | 1,270 |
| 0036 | Extracurricular activities | 1,215,978 | 1,684 | | 39,025 |
| 0041 | General administration | 804,560 | 3,735 | | 5,554 |
| 0051 | Facilities maintenance and operations | 2,360,438 | | | 1,805,119 |
| 0052 | Security and monitoring services | 88,848 | | | 11,600 |
| 0053 | Data processing services | 362,009 | | | 5,393 |
| 0071 | Principal on long-term debt | 130,000 | | 2,125,000 | |
| 0072 | Interest on long-term debt | 24,717 | | 1,167,427 | |
| 0073 | Bond issuance costs and fees | 62,425 | | 142,329 | |
| 0081 | Facilities acquisition and construction | 45,886 | | | 12,281,533 |
| 0091 | Contracted instructional services | 1,417,833 | | | |
| 0093 | Payments related to shared services arrangements | | | | |
| 0099 | Other intergovernmental charges | <u>148,079</u> | | | |
| 6030 | Total expenditures | <u>19,600,758</u> | <u>5,419</u> | <u>3,434,756</u> | <u>14,675,619</u> |
| 1100 | Excess (deficiency) of revenues over expenditures | <u>937,427</u> | <u>139,922</u> | <u>(297,684)</u> | <u>(14,645,977)</u> |
| | OTHER FINANCING SOURCES (USES): | | | | |
| 7911 | Issuance of bonds | 40,000 | | | 10,390,000 |
| 7915 | Transfers in | 500,830 | | | |
| 7916 | Premium on issuance of bonds | | | 322,086 | 320,000 |
| 8911 | Transfers out | | (500,830) | | |
| | Total other financing sources and (uses) | <u>540,830</u> | <u>(500,830)</u> | <u>322,086</u> | <u>10,710,000</u> |
| 1200 | Net change in fund balances | 1,478,257 | (360,908) | 24,402 | (3,935,977) |
| 0100 | Fund balances – beginning | <u>5,512,566</u> | <u>5,334,979</u> | <u>1,445,634</u> | <u>6,069,913</u> |
| 3000 | Fund balances – ending | <u>\$ 6,990,823</u> | <u>\$ 4,974,071</u> | <u>\$ 1,470,036</u> | <u>\$ 2,133,936</u> |

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

| Other Governmental Funds | 98 Total Governmental Funds |
|--------------------------------|--------------------------------------|
| \$ 414,674 | \$ 22,647,794 |
| 213,941 | 1,793,399 |
| <u>1,342,797</u> | <u>1,380,459</u> |
| <u>1,971,412</u> | <u>25,821,652</u> |
| 815,070 | 10,437,126 |
| | 223,255 |
| 33,762 | 222,750 |
| 49,762 | 529,239 |
| 442 | 1,079,755 |
| 44,688 | 609,169 |
| | 225,793 |
| | 1,082,747 |
| 1,087,899 | 1,089,169 |
| | 1,256,687 |
| | 813,849 |
| | 4,165,557 |
| | 100,448 |
| | 367,402 |
| | 2,255,000 |
| | 1,192,144 |
| | 204,754 |
| | 12,327,419 |
| | 1,417,833 |
| 7,646 | 7,646 |
| <u> </u> | <u>148,079</u> |
| <u>2,039,269</u> | <u>39,755,821</u> |
| (67,857) | (13,934,169) |
| | 10,430,000 |
| | 500,830 |
| | 642,086 |
| <u> </u> | <u>(500,830)</u> |
| <u>-0-</u> | <u>11,072,086</u> |
| (67,587) | (2,862,083) |
| <u>396,290</u> | <u>18,759,382</u> |
| <u>\$ 328,433</u> | <u>\$ 15,897,299</u> |

SWEENEY INDEPENDENT SCHOOL DISTRICT**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES
YEAR ENDED AUGUST 31, 2016**Exhibit C-2R
Page 1 of 1

Net change in fund balances – total governmental funds (from C-2) \$(2,862,083)

Amounts reported for governmental activities in the statement of activities (B-1) are different because:

| | |
|---|---------------------|
| Governmental funds report capital outlays as expenditures. However, in the governmental activities statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay \$ 14,901,522 was less than depreciation \$ 1,900,544 in the current period. | 13,000,978 |
| Governmental funds report pension payments as expenditures. However, in the governmental activities statement of activities, the pension cost is calculated by an actuary and involves multiple factors. The amount of pension expense reported was \$ 514,593 more than the amount reported in the funds. | (514,593) |
| Change in pension deferred outflows and inflows of resources amounted to \$32,215 and \$ 356,791 | 389,006 |
| Property tax revenues in the governmental activities statement of activities do not provide current financial resources and are not reported as revenues in the funds. Change in deferred property tax revenues for the general fund and the debt service fund amounted to \$ 32,979 and \$ 5,400, respectively. | 38,379 |
| Accretion of capital appreciation bonds increases debt service interest expense in the governmental activities statement of activities but is not reported in the governmental funds. | (13,162) |
| Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds decrease long-term assets in the statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds were \$ 539,119 (premium on sale of bonds of \$ 642,086 less amortization of \$ 102,967). | (539,119) |
| Deferred refunding cost is another use in the governmental funds, but the costs increase deferred outflows in the statement of net position. This amount is amortized over the life of the refunding bonds or the refunded bonds, whichever is shorter. Current year amortized amount was \$ 72,477. | (72,477) |
| Long-term debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the governmental activities statement of net position. Long-term proceeds in the governmental fund were \$ 10,430,000. | (10,430,000) |
| Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the governmental activities statement of net position. This amount was for general obligation bonded debt \$ 2,255,000. | 2,255,000 |
| Some expenses reported in the governmental activities statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount of accrued interest on long-term debt of \$ 25,895. | (25,895) |
| Change in net position of governmental activities (see B-1) | \$ <u>1,226,034</u> |

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

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

Exhibit E-1
Page 1 of 1

| | Family Crisis Trust | Agency Funds |
|--|---------------------------|-------------------|
| ASSETS: | | |
| Cash and cash equivalents | \$ 19,842 | \$ 167,393 |
| Total assets | <u>19,842</u> | <u>\$ 167,393</u> |
| LIABILITIES: | | |
| Amounts due to student groups and others | 35 | \$ 162,191 |
| Due to other funds | | <u>5,202</u> |
| Total liabilities | <u>35</u> | <u>\$ 167,393</u> |
| NET POSITION: | | |
| Held in trust for family crisis | <u>19,807</u> | |
| Total net position | <u>\$ 19,807</u> | |

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

SWEENEY INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED AUGUST 31, 2016

Exhibit E-2
Page 1 of 1

| | | |
|----------------------------------|---|---------------------------|
| | | Family Crisis Trust |
| | | <hr/> |
| ADDITIONS: | | |
| Total additions | | \$ <u>-0-</u> |
| DEDUCTIONS: | | |
| Total deductions | | <u>35</u> |
| Change in net position | (| 35) |
| NET POSITION: | | |
| Net position - beginning of year | | <u>19,842</u> |
| Net position - end of year | | \$ <u><u>19,807</u></u> |

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

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

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SWEENY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Sweeny 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 that are elected by registered voters of the District.

The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources; and it complies with the requirements of the appropriate version of Texas Education Agency's (the "TEA") *Financial Accountability System Resource Guide* (the "Resource Guide" or "FASRG") and the requirements of contracts and grants of agencies from which it receives funds.

The District's Financial Statements are in accordance with GASB Statement No. 34, "Basic Financial Statements and Management Discussion and Analysis for State and Local Governments", GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus" which provides additional guidance for the implementation of GASB Statement No. 34, and GASB Statement No. 38 "Certain Financial Statement Disclosures" which changes the note disclosure requirements in the financial statements for governmental entities.

GASB Statement No. 34 established a new financial reporting model for state and local governments that included the addition of management's discussion and analysis, government-wide financial statements, required supplementary information and the elimination of the effects of internal service activities and the use of account groups to the already required fund financial statements and notes.

The GASB determined that fund accounting has and will continue to be essential in helping governments to achieve fiscal accountability and should, therefore, be retained. The GASB also determined that government-wide financial statements are needed to allow user's of financial reports to assess a government's operational accountability. The GASB Statement No. 34 reporting model integrates fund-based financial reporting and government-wide financial reporting as complementary components of a single comprehensive financial reporting model.

The following is a summary of the most significant accounting policies.

Reporting Entity

The District is considered an independent entity for financial reporting purposes and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared, based on considerations regarding the potential for inclusion of other entities, organizations, or functions, as part of the District's financial reporting entity. Based on these considerations, the District's basic financial statements do not include any other entities. Additionally, as the District is considered a primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

SWEENEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the District's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the District is part of any other governmental or other type of reporting entity. The overriding elements associated with prescribed criteria considered in determining that the District's financial reporting entity status is that of a primary government are: that it has a separately elected governing body; it is legally separate; and it is fiscally independent of other state and local governments.

Additionally prescribed criteria under generally accepted accounting principles include considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The Board of Trustees (the "Board") is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board (GASB) in its GASB Statement No. 61, "The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14. and No. 34". A blended component unit, although a legally separate entity, is, in substance, part of the District's operations.

- Blended component unit. The Sweeny Independent School District Education Foundation was established under Internal Revenue Service regulations as a conduit for tax-deductible donations to the District. The Foundation's board is approved by the Superintendent. The Foundation is a supporting organization to the District. The Foundation is presented as a special revenue fund of the District.

The District receives support from various PTO and booster clubs. None of these organizations meet the criteria specified by GASB 61 to be included in the District's financial statements

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of changes in net position) report financial information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. The *governmental activities* are supported by tax revenues, state foundation funds, grants, and intergovernmental revenues. The District has no *business-type activities* that 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 are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. *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 and 2) grants and contributions that are restricted to meeting operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

SWEENEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

Interfund activities between governmental funds appear as due to/due from on the Governmental Funds Balance Sheet and as other resources and other uses on the Governmental Funds Statement of Revenues, Expenditure and Changes in Fund Balance. All interfund transactions between governmental funds are eliminated on the government-wide statements. Interfund activities between governmental funds and fiduciary funds remain as receivables and payables on the government-wide statement of net position.

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

Measurement Focus, Basis Of Accounting, and 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 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 revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State of Texas are recognized under the susceptible-to-accrual concept, that is, when they are both measurable and available. 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.

Revenue from investments, including governmental external investment pools, is based upon fair value. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Most investments are reported at amortized cost when the investments have remaining maturities of one year or less at time of purchase. External investment pools are permitted to report short-term debt investments at amortized cost, provided that the fair value of those investments is not significantly affected by the impairment of the credit standing of the issuer, or other factors. For that purpose, a pool's short-term investments are those with remaining maturities of up to ninety days.

SWEENEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis Of Accounting, and Financial Statement Presentation **(Continued)**

Grant funds are considered earned to the extent of the expenditures made under the provisions of the grant. Accordingly, when such funds are received, they are recorded as unearned revenues until the 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.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, and then unrestricted resources as needed.

The District reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the District, except those required to be accounted for in another fund. Major revenue sources include local property taxes, state funding under the Foundation School Program and interest earnings. Expenditures include all costs associated with the daily operations of the District except for specific programs funded by the federal and state government, food service, debt service, and capital projects.

The *Sweeney Education Foundation* accounts for contributions that are tax-deductible. The foundation was established as a conduit for tax-deductible donations to the District.

The *debt service* fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the general fund after all of the related debt obligations have been met. Major revenue sources include local property taxes, and interest earnings. Expenditures include all costs associated with related debt service.

The *capital projects* fund accounts for the resources as accumulated and made for Board authorized acquisition, construction, or renovation, as well as, furnishing and equipping of major capital facilities.

Additionally, the District reports the following fiduciary funds:

The *private-purpose trust funds* are used to account for donations and other specified donor purposes for family crisis. The District uses the fund to pay for medical care needed by disadvantaged students who cannot afford such care.

The *agency fund* accounts for resources held in a custodial capacity by the District, and consists of funds that are the property of students or others.

SWEENEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Investments

The District considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools*, investments are reported at fair value. Fair values are based on published market rates. Current investments have an original maturity greater than three months but less than one year at the time of purchase. Non-current investments have an original maturity of greater than one year at the time of purchase.

Interfund Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All outstanding balances between funds are reported as "due to/from other funds". The District had no advances between funds. See Note 5 for additional discussion of interfund receivables and payables.

Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of January 1 for all real and business property located in the district 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 year following the October 1 levy date. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The appraisal and recording of all property within the District is the responsibility of the Brazoria County Appraisal District (BCAD), an independent governmental unit with a board of directors appointed by the taxing jurisdictions within the county and funded from assessments against those taxing jurisdictions. BCAD is required by law to assess property at 100% of its appraised value. Real property must be reappraised at least every two years.

Under certain circumstances taxpayers and taxing units, including the District, may challenge orders of the BCAD Review Board through various appeals and, if necessary, legal action.

The assessed value of the property tax roll on August 1, 2015, upon which the levy for the 2015-16 fiscal year was based, was \$ 1,790,173,475. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges plus 20% delinquent collection fees for attorney costs.

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 \$ 1.04 and \$.1717 per \$ 100 valuation, respectively, for a total of \$ 1.2117 per \$ 100 valuation.

SWEENEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes (Continued)

Current tax collections for the year ended August 31, 2016 were 99.38% of the year-end adjusted tax levy. 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 \$ 159,570 and \$ 27,368 for the general and debt service funds, respectively.

Inventories

The consumption method is used to account for inventories (food products, school supplies and athletic equipment) of governmental funds. Under this method, these items are carried in an inventory account of the respective fund at cost, using the first-in, first-out method of accounting and are subsequently charged to expenditures when consumed. Governmental fund inventories are offset by a fund balance reserve indicating that they are unavailable as current expendable financial resources. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their market value is recorded as inventory and unearned revenue when received in the governmental funds. When requisitioned, inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.

Capital Assets and Depreciation

Capital assets, which include land and land improvements, buildings and improvements, and furniture, equipment and vehicles, are reported in the applicable governmental activities column 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 or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair 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. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

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

| <u>Assets</u> | <u>Years</u> |
|----------------------------|--------------|
| Land improvements | 20 |
| Buildings and improvements | 20-40 |
| Furniture and equipment | 5-20 |
| Vehicles | 10-15 |

SWEENEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Outflows and Inflows of Resources

Guidance for deferred outflows of resources and deferred inflows of resources is provided by GASB No. 63, "Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position". Concepts Statement No. 4, Elements of Financial Statements, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the government that is applicable to a future period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. Further, GASB No. 65, "Items Previously Reported as Assets and Liabilities", had an objective to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of resources (expenses or expenditures) or inflows of resources (revenues).

Compensated Absences

Compensated absences are absences for which employees will be paid. A liability for compensated absences that are attributable to services already rendered and that are not contingent on a specific event that is outside the control of the government and its employees is accrued as employees earn the rights to the benefits. Compensated absences that relate to future services or that are contingent on a specific event that is outside the control of the government and its employees are accounted for in the period in which such services are rendered or such events take place.

In the governmental funds, compensated absences that are expected to be liquidated with expendable available resources are reported as an expenditure and fund liability in the fund that will pay for them. The remainder of the compensated absences liability is reported in long-term liabilities on the statement of net position.

Vacations are to be taken within the twelve month period that they are earned. Any unused vacation days will be forfeited with the exception of five carry over days per year. A maximum of twenty total days can be accumulated and paid when an employee retires without prior approval. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, no liability for unused sick leave has been accrued in the accompanying basic financial statements.

The following is a summary of changes in the accumulated unused vacation liability:

| | <u>2016</u> |
|------------------------|-------------------------|
| Balance, September 1 | \$ 63,012 |
| Additions – net unused | 8,650 |
| Deductions – payments | <u>(11,292)</u> |
| Balance, August 31 | \$ <u><u>60,370</u></u> |

The amounts attributable to the current and non-current portions on the liability resulting from this policy can only be estimated. As such, the entire amount of the liability is accounted for in the general fund.

SWEENEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenditure or expenses in the current period. Net pension obligation is reported as long term liabilities and pension expenses, based upon actuarial data, is reported as expenses within functional categories.

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 the debt issued is reported as other financing resources. 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. Net pension costs are reported, based upon required contributions for the current period, are reported within functional categories as expenditures.

Pensions

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

Budgetary Data

Formal budgetary accounting is employed for all required governmental funds, as outlined in TEA's FASRG, and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles. The budget is prepared and controlled at the function level within each organization to which responsibility for controlling operations is assigned.

The official school budget is prepared for adoption for required governmental funds prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, debt service fund and the food service (special revenue fund). The remaining special revenue funds and the capital projects fund (if utilized) adopt project-length budgets, which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting, which is consistent with generally

SWEENEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Data (Continued)

accepted accounting principles. The budget was properly amended throughout the year by the Board of Trustees. Such amendments are before the fact and are reflected in the official minutes of the Board.

The Official Budget was prepared for adoption for the general fund, food service (special revenue fund) and debt service fund prior to August 31, 2015. The budget is prepared by fund, function, object, and organization. The budget is controlled at the organizational level by the appropriate department head or campus principal within Board allocations. Therefore, organizations may transfer appropriations as necessary without the approval of the board unless the intent is to cross fund, function or increase the overall budget allocations. Control of appropriations by the Board of Trustees is maintained within fund groups at the function code level and revenue object code level.

The Budget is formally adopted by the Board of Trustees at a duly advertised public meeting in accordance with law prior to the expenditure of funds. The approved budget is filed with the Texas Education Agency (TEA) through the Public Education Information Management System. Should any change in the approved budget be required, budget amendment requests are presented to the Board of Trustees for consideration. Amendments are made before the fact and once approved are reflected in the official minutes. During the year the budget was properly amended in accordance with the above procedures. The Board of Trustees approved the final budget amendment on August 30, 2016.

Encumbrance Accounting

The District utilizes encumbrance accounting, in its governmental funds. Encumbrances represent commitments related to contracts not yet performed (executor contracts), and are used to control expenditures for the period and to enhance cash management. A school district often issues purchase orders or signs contracts for the purchase of goods and services to be received in the future. At the time these commitments are made, which in its simplest form means that when a purchase order is prepared, the appropriate account is checked for available funds. If an adequate balance exists, the amount of the order is immediately charged to the account to reduce the available balance for control purposes. The encumbrance account does not represent and expenditure for the period, only a commitment to expend resources.

Prior to the end of the current period, every effort should be made to liquidate outstanding encumbrances. When encumbrances are outstanding at the current period end, the school district likely will honor the open purchase orders or contracts that support the encumbrances. For reporting purposes, as noted earlier, outstanding encumbrances are not considered expenditures for the current period. If the school district allows encumbrances to lapse, even though it plans to honor the encumbrances, the appropriations authority expires and the items represented by the encumbrances are usually re-appropriated in the following year's budget. Open encumbrances at current period-end are included in restricted, committed or assigned fund balance, as appropriate.

The District canceled all the open purchase orders at the end of fiscal year. Therefore, the District had no outstanding encumbrances as of August 31, 2016.

SWEENEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances

The District's Board of Trustees meets on a regular basis to manage and review cash financial activities and to ensure compliance with established policies. The District's Unassigned General Fund Balance is maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The unassigned General Fund Balance may only be appropriated by resolution of the Board of Trustees. Fund Balance of the District may be committed for a specific source by formal action of the District's Board of Trustees. Amendments or modifications of the committed fund balance must also be approved by formal action by the District's Board of Trustees. When it is appropriate for fund balance to be assigned, the Board of Trustees, delegates authority to the Superintendent or the Executive Director of Business Services. In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

Beginning with fiscal 2011, the District implemented GASB Statement No. 54, "Fund Balance, Reporting and Governmental Fund Type Definitions". This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on government's fund balance more transparent. The following classifications describe the relative strength of spending constraints:

Non-spendable Fund Balance - Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact. This classification includes inventories, prepaid amounts, assets held for sale, and long-term receivables.

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions of enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority.

Assigned Fund Balance - Amounts that are constrained by the District's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body (such as a Finance Committee), or by an official to whom that authority has been given. With the exception of the General Fund, this is the residual fund balance classification for all governmental funds with positive balances.

Unassigned Fund Balance - This is the residual classification of the General Fund. Only the General Fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification, as the result of overspending for specific purposes for which amount had been restricted, committed or assigned.

SWEENEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances (Continued)

As of August 31, 2016, non-spendable fund balances include \$ 46,456 for inventories and \$ 175,452 for prepaid items in the general fund and \$ 42,417 for inventories in food service fund. Restricted fund balances include \$ 4,625,880 for Sweeny education foundation fund long-term investments, \$ 1,470,036 for debt service fund, \$ 2,133,936 for capital projects fund, and \$ 286,016 for special revenue funds. Committed fund balances include \$ 250,000 for claims and judgments and \$ 350,000 for capital expenditures for equipment in the general fund, and \$ 348,191 for other purpose in Sweeny Education Foundation fund. Assigned fund balance includes \$ 2,476,715 in the general fund for other purposes. Unassigned fund balance includes \$ 3,692,200 in the general fund.

Data Control Codes

The data control codes refer to the account code structure prescribed by TEA in the FASRG. The TEA requires school districts to display these codes in the financial statements filed with the Agency in order to ensure accuracy in building a statewide database for policy development and funding plans.

Use of Estimates

The presentation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reporting amounts of assets and deferred outflows of resources, and, liabilities and deferred inflows of resources at the date of the financial statements, and the reported amounts of revenues and expenditures during the period. Actual results could differ from these estimates.

New Pronouncements

GASB issues statements on a routine basis with the intent to provide authoritative guidance on the preparation of financial statements and to improve governmental accounting and financial reporting of governmental entities. Management reviews these statements to ensure that preparation of its financial statements are in conformity with generally accepted accounting principles and to anticipate changes in those requirements. The following recent GASB Statements reflect the action and consideration of management regarding these requirements:

GASB Statement No. 68, "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27", was issued June 2012. The statement was implemented and did have a material effect on the District's financial statements. This statement is effective for periods beginning after June 15, 2014.

GASB Statement No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68", was issued November 2013. The statement was implemented and did have a material effect on the District's financial statements. This statement is effective for periods beginning after June 15, 2014.

GASB No. 72, "Fair Value Measurement and Application" was issued February 2015. The statement was implemented and did not have an effect on the District's financial statements. This statement is effective for periods beginning after June 15, 2015.

SWEENEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GASB No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of Statements 67 and 68" was issued June 2015. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2016.

GASB No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans" was issued June 2015. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2016.

GASB No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions" was issued June 2015. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2017.

GASB No. 76, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments" was issued June 2015. The statement was implemented and did not have an effect on the District's financial statements. This statement is effective for periods beginning after June 15, 2015.

GASB No. 77 "Tax Abatement Disclosures" was issued in August 2015. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. This statement is effective for periods beginning after December 15, 2015.

GASB No. 78 "Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans" was issued in December 2015. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. This statement is effective for periods beginning after December 15, 2015.

GASB No. 79 "Certain External Investment Pools and Pool Participants" was issued in December 2015. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. This statement is effective for periods beginning after December 15, 2015.

GASB No. 80 "Blending Requirements for Certain Component Units and amendment of GASB No. 14" was issued in January 2016. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. This statement is effective for periods beginning after June 15, 2016.

GASB No. 81 "Irrevocable Split-Interest Agreements" was issued in March 2016. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after December 15, 2016.

GASB No. 82 "Pension Issues – an amendment of GASB No. 67, No. 68, and No. 73" was issued in March 2016. The management of the District does not expect the implementation of this standard to have a material effect on the financial statements of the District. The requirements of this Statement are effective for periods beginning after June 15, 2016.

SWEENEY INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED AUGUST 31, 2016****NOTE 2. DEPOSITS, INVESTMENTS AND DERIVATIVES**

The District classifies deposits and investments for financial statement purposes as cash and cash equivalents, current investments, and non-current investments based upon both liquidity (demand deposits) and maturity date (deposits and investments) of the asset at the date of purchase. For this purpose an investment is considered a cash equivalent if when purchased it has maturity of three months or less. Investments are classified as either current investments or non-current investments. Current investments have maturity of one year or less and non-current investments are those that have a maturity of one year or more.

Cash and cash equivalents, current investments, and non-current investments as reported on the statement of net position at August 31, 2016 are as follows:

| | Governmental Funds | Fiduciary Funds | Total |
|---------------------------------|-----------------------|--------------------|----------------------|
| Cash and Cash Equivalents: | | | |
| Cash (petty cash accounts) | \$ 137 | \$ | \$ 137 |
| Financial Institution Deposits: | | | |
| Demand deposits | 883,817 | 187,235 | 1,071,052 |
| Texpool | 6,946,338 | | 6,946,338 |
| MBIA Texas Class | 4,246,999 | | 4,246,999 |
| Lonestar | 4,568 | | 4,568 |
| Total cash and cash equivalents | <u>12,081,859</u> | <u>187,235</u> | <u>12,269,094</u> |
| Current Investments: | | | |
| Other investment | <u>437,715</u> | | <u>437,715</u> |
| Total current investments | <u>437,715</u> | <u>-0-</u> | <u>437,715</u> |
| Non-current Investments: | | | |
| Certificates of deposit | 3,375,652 | | 3,375,652 |
| Other investments | <u>1,250,228</u> | | <u>1,250,228</u> |
| Non-current investments | <u>4,625,880</u> | <u>-0-</u> | <u>4,625,880</u> |
| Totals | <u>\$ 17,145,454</u> | <u>\$ 187,235</u> | <u>\$ 17,332,689</u> |

Deposits

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a financial institution failure, the District's deposits may not be returned to them. The District requires that all deposits with financial institutions be collateralized in an amount equal to 100 percent of uninsured balances.

Under Texas state law, a bank serving as the school depository must have a bond or in lieu thereof, deposited or pledged securities with the District or an independent third party agent, an amount equal to the highest daily balance of all deposits the District may have during the term of the depository contract, less any applicable FDIC insurance.

SWEENEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 2. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Deposits (Continued)

At August 31, 2016, in addition to petty cash of \$ 137, the carrying amount of the District's cash, savings, and time deposits was \$ 4,446,704 and the financial institutions balances were \$ 4,799,755. Deposit balances of \$ 500,000 were covered by federal depository insurance, \$ 3,402,705 was covered by the Securities Investor Protection Corporation Insurance, and \$ 897,050 was covered by collateral pledged in the District's name. The collateral was held in safekeeping departments of unrelated banks, which act as the pledging bank's agent. These amounts include those of the Sweeny Education Foundation.

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

Depository:

- a. Name of bank: First State Bank of Louise, Sweeny, Texas.
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$ 4,794,001.
- c. Largest cash, savings and time deposit combined account balance amounted to \$ 7,495,278 and occurred on September 11, 2015.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$ 500,000. Total amount of Securities Investor Protection Corporation Insurance coverage at the time of the largest combined balance was \$ 3,402,705.

Investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act) authorizes the District to invest its funds under written investment policy (the "investment policy") that primarily emphasizes safety of principal and liquidity, addresses investment diversification, yield, and maturity and addresses the quality and capability of investment personnel. This investment policy defines what constitutes the legal list of investments allowed under the policies, which excludes certain instruments allowed under chapter 2256 of the Texas Government Code.

The District's deposits and investments are invested pursuant to the investment policy, which is approved by the Board of Trustees. The investment policy includes lists of authorized investment instruments and allowable stated maturity of individual investments. In addition it includes and "Investment Strategy Statement" that specifically addresses each investment option and describes the priorities of suitability of investment type, preservation and safety of principal, liquidity, marketability, diversification and yield. Additionally, the soundness of financial institutions (including broker/dealers) in which the District will deposit funds is addressed. The District's investment policy and types of investments are governed by the Public Funds Investment Act (PFIA). The District's management believes it complied with the requirements of the PFIA and the District's investment policy.

The District's Investment Officer submits an investment report each quarter to the Board of Trustees. The report details the investment positions of the District and the compliance of the investment portfolio's as they relate to both the adopted investment strategy statements and Texas State law.

SWEENEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 2. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Investments (Continued)

The District is authorized to invest in the following investment instruments provided that they meet the guidelines of the investment policy:

1. Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009;
2. Certificates of deposit and share certificates as permitted by Government Code 2256.010;
3. Fully collateralized repurchase agreements permitted by Government Code 2256.011;
4. Banker's acceptances as permitted by Government Code 2256.012;
5. Commercial paper as permitted by Government Code 2256.013;
6. No-load money market mutual funds and no-load mutual funds as permitted by Government Code 2256.014;
7. A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015; and
8. Public funds investment pools as permitted by Government Code 2256.016.

The District participates in a repurchase agreement for the purpose of investing funds to pay matured bonds. This agreement governs the investment of bond payments at a fixed rate between the District and the depository on scheduled dates. This agreement is not considered a deposit and is not insured by federal deposit insurance or any other insurance. These investments have a custodial risk as uninsured and unregistered, with securities held by the financial institutions trust department or agent in the District's name.

The District entered into this agreement for the purpose of repaying bonds. This agreement shall not be terminable upon demand. The District will participate in this agreement until completion of term with an interest rate of 2.95% on the investments. The District will then repay bonds with this investment. During the year ended August 31, 2016 the District made its 10th payment of \$ 37,307. At August 31, 2016 the value of cash and investments were \$ 438,260. See Note 6 on pages 61-62 for additional information regarding the bonds and mandatory sinking fund requirements.

The District participates in three Local Government Investment Pools (LGIPs): Texpool, Lonestar and MBIA Texas Class. The State Comptroller oversees Texpool and Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Advisory boards consisting of participants or their designees, maintains oversight responsibility for MBIA Texas Class and Lonestar.

The District invests in Texpool, Lonestar and MBIA Texas Class to provide its liquidity needs. Texpool, Lonestar and MBIA Texas Class are local government investment pools that were established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Code. Texpool, Lonestar and MBIA Texas Class are 2(a)7 like funds, meaning that they are structured similar to a money market mutual fund. Such funds allow shareholders the ability to deposit or withdraw funds on a daily basis. Interest rates are also adjusted on a daily basis. Such funds seek to maintain a constant net asset value of \$ 1.00, although this cannot be fully guaranteed. Texpool, Lonestar and MBIA Texas Class are rated AAA and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit.

SWEENEY INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED AUGUST 31, 2016

NOTE 2. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)**Investments (Continued)**

At August 31, 2016 Texpool, Lonestar and MBIA Texas Class had a weighted average maturity of 42 days, 23 days and 47 days, respectively. Although Texpool, Lonestar and MBIA Texas Class portfolios had a weighted average maturity of 42 days, 23 days and 47 days, respectively, the District considers holdings in these funds to have a one day weighted average maturity. This is due to the fact that the share position can usually be redeemed each day at the discretion of the shareholder, unless there has been a significant change in value. The District's investments in LGIPs are insured, registered, or the District's agent holds the securities in the District's name; therefore, the District is not exposed to custodial risk.

The following table includes the portfolio balances of all investment types of the District at August 31, 2016.

| | <u>Maturity Date</u> | <u>Coupon Rate (%)</u> | <u>Weighted Average Maturity (Days)</u> | <u>Market Value</u> |
|---|--------------------------|----------------------------|---|-------------------------|
| Local Government Investment Pools: | | | | |
| Texpool | N/A | Varies daily | 42 | \$ 6,946,338 |
| MBIA Texas Class | N/A | Varies daily | 47 | 4,246,999 |
| Lonestar | N/A | Varies daily | 23 | <u>4,568</u> |
| Total local government investment pools | | | 44 | <u>11,197,905</u> |
| Certificates of Deposit: | | | | |
| Certificate of deposit | 01/22/18 | 1.20% | 509 | 100,921 |
| Certificate of deposit | 06/11/18 | 1.40% | 649 | 251,281 |
| Certificate of deposit | 02/17/18 | 1.70% | 838 | 251,514 |
| Certificate of deposit | 01/14/20 | 1.30% | 1231 | 184,760 |
| Certificate of deposit | 06/04/20 | 1.65% | 1373 | 255,648 |
| Certificate of deposit | 07/08/20 | 1.30% | 1407 | 248,922 |
| Certificate of deposit | 12/23/20 | 1.80% | 1575 | 256,846 |
| Certificate of deposit | 01/15/21 | 1.70% | 1598 | 141,551 |
| Certificate of deposit | 07/01/21 | 1.55% | 1765 | 249,538 |
| Certificate of deposit | 06/30/22 | 1.55% | 2129 | 249,163 |
| Certificate of deposit | 12/19/22 | 2.60% | 2301 | 259,210 |
| Certificate of deposit | 01/22/17 | 1.50% | 144 | 246,913 |
| Certificate of deposit | 04/28/17 | 2.00% | 240 | 190,027 |
| Certificate of deposit | 12/18/20 | 2.50% | 1570 | 251,889 |
| Certificate of deposit | 07/18/17 | 1.50% | 318 | <u>237,469</u> |
| Total Certificates of Deposit | | | 1216 | <u>3,375,652</u> |
| U.S. Government Bonds | | | | |
| Discount notes | 11/15/16 | 0.00% | 76 | 437,715 |
| Municipal Bonds | 10/01/17 | 1.41% | 396 | 120,676 |
| Municipal Bonds | 08/15/18 | 3.81% | 714 | 99,820 |
| Municipal Bonds | 02/15/21 | 3.25% | 1629 | <u>506,956</u> |
| Total U. S. Government Bonds | | | 839 | <u>1,165,167</u> |

SWEENEY INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED AUGUST 31, 2016

NOTE 2. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)**Investments (Continued)**

| | <u>Maturity Date</u> | <u>Coupon Rate (%)</u> | <u>Weighted Average Maturity (Days)</u> | <u>Market Value</u> |
|-----------------------------------|--------------------------|----------------------------|---|-------------------------|
| Asset Backed Securities: | | | | |
| Fhlmc multiclass mtg prtn cfs gtd | 09/15/16 | 6.00% | 15 | 184 |
| Fhlmc multiclass mtg prtn cfs gtd | 06/15/17 | 5.50% | 288 | 7 |
| FNMA gtd remit pass thru tr | 12/25/17 | 1.51% | 481 | 113,256 |
| Fhlmc multiclass mtg prtn cfs gtd | 09/15/18 | 2.00% | 745 | 40,840 |
| Fhlmc multiclass mtg prtn cfs gtd | 11/15/18 | 2.50% | 806 | 47,994 |
| GNMA II gtd pass thru | 12/20/19 | 4.50% | 1206 | 38,161 |
| Fhlmc multiclass mtg prtn cfs gtd | 05/15/20 | 2.25% | 1353 | <u>24,694</u> |
| Total Asset backed securities | | | 766 | <u>265,136</u> |
| Mutual Fund | N/A | N/A | 1 | <u>257,640</u> |
| Totals | | | 355 | <u>\$ 16,261,500</u> |

Credit Risk – As of August 31, 2016, the LGIPs (which represent approximately 69% of the portfolio) are rated AAAM by Standard and Poor's or AAA by Finch. Certificates of deposit (which represent approximately 21% of the portfolio) are fully insured by the Securities Investor Protection Corporation Insurance and by federal depository insurance through CDARS programs. The U.S. government bond (which represent approximately 7% of the portfolio) are rated AAA by Standard and Poor's. The asset backed securities and mutual fund (which represent approximately 3% of the portfolio) are not rated.

Interest Rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations, the Investment Policy requires that investment maturities will not exceed the lesser of a dollar weighted average maturity of 365 days or the anticipated cash flow requirements of the funds. Quality short-to-medium term securities should be purchased, which complement each other in a structured manner that minimizes risk and meets the District's cash flow requirements.

At August 31, 2016, 97% of the investment portfolio was invested in AAAM or AAA rated LGIPs (2(a)7 like pools), U.S. Government Securities, and certificates of deposit. 3% of the investment portfolio was invested in not rated asset backed securities and mutual funds. The dollar weighted average maturity for all investments was 355 days, which was less than the threshold of 365 days.

Fair Value – The District categorizes its fair value measurements within the fair value hierarchy established by GASB No 72. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurements).

SWEENEY INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED AUGUST 31, 2016****NOTE 2. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)****Investments (Continued)**

The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table sets forth by level, within the fair value hierarchy, the District's assets at fair value as of August 31, 2016:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|------------------------------------|----------------------|----------------|----------------|----------------------|
| Local Governmental Investment Pool | \$ 11,197,905 | \$ | \$ | \$ 11,197,905 |
| Certificates of Deposit | 3,375,652 | | | 3,375,652 |
| U.S. Governmental Bonds | 1,165,167 | | | 1,165,167 |
| Asset Backed Securities | 265,136 | | | 265,136 |
| Mutual Funds | <u>257,640</u> | | | <u>257,640</u> |
| Total assets at fair value | <u>\$ 16,261,500</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ 16,261,500</u> |

Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its values from another security, currency, commodity, or index, regardless of the source of funds used. The District made no direct investments in derivatives during the year ended August 31, 2016, and holds no direct investments in derivatives at August 31, 2016.

SWEENEY INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED AUGUST 31, 2016

NOTE 3. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES AND UNEARNED REVENUES**Receivables and Allowances**

Receivables as of August 31, 2016, for the government's individual major funds and nonmajor, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | General Fund | Sweeny Education Foundation | Debt Service Fund | Other Governmental Funds | Total |
|---------------------------------------|---------------------|-----------------------------------|-------------------------|--------------------------------|---------------------|
| Receivables: | | | | | |
| Property taxes | \$ 508,937 | \$ | \$ 75,291 | \$ | \$ 584,228 |
| Receivables from other governments | 1,413,140 | | | 137,374 | 1,550,514 |
| Interest | | 8,771 | | | 8,771 |
| Other | <u>26,966</u> | | | <u>8,540</u> | <u>35,506</u> |
| Gross receivables | 1,949,043 | 8,771 | 75,291 | 145,914 | 2,179,019 |
| Less: allowance for uncollectibles | <u>349,367</u> | | <u>47,923</u> | | <u>397,290</u> |
| Net total receivables | <u>\$ 1,599,676</u> | <u>\$ 8,771</u> | <u>\$ 27,368</u> | <u>\$ 145,914</u> | <u>\$ 1,781,729</u> |

Receivables/Payables from/to Other Governments

The District participates in a variety of federal and state programs from which it receives grants to, partially or fully, finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. All federal grants shown below are passed through the TEA or other state agency and are reported on the combined financial statements as either Receivable from or to Other Governments, as applicable.

Amounts due from federal, state, and local governments as of August 31, 2016 are summarized below.

| Fund | State Entitlements | Federal Grants | State Grants and Other | Total |
|---------------------------|-----------------------|-------------------|---------------------------|---------------------|
| Major Governmental Funds: | | | | |
| General | \$ 1,373,463 | \$ | \$ 39,677 | \$ 1,413,140 |
| Other governmental funds | | <u>128,223</u> | <u>9,151</u> | <u>137,374</u> |
| Totals | <u>\$ 1,373,463</u> | <u>\$ 128,223</u> | <u>\$ 48,828</u> | <u>\$ 1,550,514</u> |

Amounts due to federal, state, and local governments as of August 31, 2016 are summarized below:

| Fund | State Entitlements | Federal Grant | Total |
|---------------------------|-----------------------|------------------|-------------------|
| Major Governmental Funds: | | | |
| General | \$ <u>283,996</u> | \$ | \$ <u>283,996</u> |
| Totals | <u>\$ 283,996</u> | <u>\$ -0-</u> | <u>\$ 283,996</u> |

SWEENEY INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED AUGUST 31, 2016

NOTE 3. RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES AND UNEARNED REVENUES (Continued)**Deferred Outflows and Inflows of Resources/Unearned Revenue****Governmental Funds**

Governmental funds defer the recognition of revenue in connection with receivables that are considered to be unavailable to liquidate liabilities of the current period and report these amounts as deferred inflows of resources. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

As of August 31, 2016, the various components of deferred inflows of resources and unearned revenue reported in the governmental funds were as follows:

| | <u>Deferred Inflows of Resources</u> | <u>Unearned Revenue</u> |
|--|--|-----------------------------|
| Delinquent property taxes receivable (general fund) | \$ 128,051 | \$ |
| Delinquent property taxes receivable (debt service fund) | 22,299 | |
| Federal food commodities | | 16,511 |
| Advance Funding - State and local grants | <u> </u> | <u>51,115</u> |
| Totals | <u>\$ 150,350</u> | <u>\$ 67,626</u> |

Governmental Activities

Governmental activities defer the recognition of pension expense for contributions made from the measurement date (August 31, 2015) to the current year-end of August 31, 2016 and report these as deferred outflows of resources. Governmental activities also defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a deferred inflow of resources. Further, for governmental activities, like governmental funds, defer revenue recognition in connection with resources that have been received, but not yet earned and report these amounts as a liability (unearned revenue).

As of August 31, 2016, the various components of deferred inflows and outflows of resources and unearned revenue reported in the governmental activities were as follows:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> | <u>Unearned Revenue</u> |
|---|---|--|-----------------------------|
| TRS deferred inflows and outflows of resources net of amortization | \$ 657,672 | \$ 584,507 | \$ |
| Pension contributions subsequent to the measurement date | 217,465 | | |
| Bond refunding cost | 719,144 | | |
| Federal food commodities | | | 16,511 |
| Advance funding | <u> </u> | <u> </u> | <u>51,115</u> |
| Totals | <u>\$ 1,594,281</u> | <u>\$ 584,507</u> | <u>\$ 67,626</u> |

SWEENEY INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED AUGUST 31, 2016

NOTE 4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**Interfund Receivables and Payables**

Interfund balances at August 31, 2016 consisted of the following individual fund receivables and payables:

| <u>Fund</u> | <u>Receivable</u> | <u>Payable</u> |
|--|-------------------|-------------------|
| General Fund: | | |
| Special Revenue Funds | \$ 493,813 | \$ |
| Debt Service Fund | | 286 |
| Capital Project Fund | | 112,728 |
| Fiduciary Funds | 19 | |
| | <u>493,832</u> | <u>113,014</u> |
| Special Revenue Funds: | | |
| General Fund: | | |
| ESEA Title I Part A Improving Basic Programs | | 16,464 |
| IDEA Part B, Formula | | 19,547 |
| Title I, Part B, Preschool | | 1,103 |
| Title II, Part A | | 20,892 |
| Vocational Education | | 863 |
| Sweeny ISD Educational Foundation | | 434,944 |
| Fiduciary Funds | 5,183 | |
| | <u>5,183</u> | <u>493,813</u> |
| Debt Service: | | |
| General Fund | 286 | |
| | <u>286</u> | <u>-0-</u> |
| Capital Projects: | | |
| General Fund | \$ 112,728 | \$ |
| Fiduciary Funds: | | |
| General Fund | | 19 |
| Special Revenue Fund | | 5,183 |
| | <u>-0-</u> | <u>5,202</u> |
| | <u>\$ 612,029</u> | <u>\$ 612,029</u> |

Interfund Transfers

Interfund transfers for the year ended August 31, 2016 consisted of the following individual fund transfer in and transfer out:

| <u>Transferring Fund</u> | <u>Receiving Fund</u> | <u>Amount</u> |
|-----------------------------|-----------------------|-------------------|
| Sweeny Education Foundation | General Fund | \$ <u>500,830</u> |

The Board of Trustees approved this transfer, as transfers of operational funds to cover planned expenditures.

SWEENEY INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED AUGUST 31, 2016

NOTE 5. CAPITAL ASSETS**Changes in Capital Assets and Accumulated Depreciation**

The following provides a summary of changes in capital assets and accumulated depreciation for the year ended August 31, 2016:

| | Balance September 1, 2015 | Additions | Retirements | Balance August 31, 2016 |
|---------------------------------|---------------------------------|----------------------|---------------------|-------------------------------|
| Non-Depreciated Capital Assets: | | | | |
| Land | \$ 1,406,238 | \$ | \$ | \$ 1,406,238 |
| Construction in progress | <u>13,668,167</u> | <u>11,125,870</u> | <u>1,548,822</u> | <u>23,245,215</u> |
| Total non-depreciated | <u>15,074,405</u> | <u>11,125,870</u> | <u>1,548,822</u> | <u>24,651,453</u> |
| Depreciated Capital Assets: | | | | |
| Land improvements | 1,101,878 | | | 1,101,878 |
| Buildings and improvements | 70,079,526 | 3,595,649 | | 73,675,175 |
| Furniture, equipment & vehicles | <u>3,873,153</u> | <u>1,728,825</u> | | <u>5,601,978</u> |
| Total depreciated | <u>75,054,557</u> | <u>5,324,474</u> | <u>-0-</u> | <u>80,379,031</u> |
| Total additions/retirements | <u>90,128,962</u> | <u>\$ 16,450,344</u> | <u>\$ 1,548,822</u> | <u>105,030,484</u> |
| Accumulated Depreciated: | | | | |
| Land and land improvements | \$ 683,208 | \$ 51,170 | \$ | \$ 734,378 |
| Buildings and improvements | 36,293,751 | 1,427,196 | | 37,720,947 |
| Furniture, equipment & vehicles | <u>2,530,804</u> | <u>422,178</u> | | <u>2,952,982</u> |
| Total | <u>39,507,763</u> | <u>\$ 1,900,544</u> | <u>\$ -0-</u> | <u>41,408,307</u> |
| Net depreciated capital assets | <u>35,546,794</u> | | | <u>38,970,724</u> |
| Net capital assets | <u>\$ 50,621,199</u> | | | <u>\$ 63,622,177</u> |

Depreciation Expense

In accordance with requirements of GASB Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*, depreciation expense of the governmental activities was charged to functions as follows:

| Data Control Codes | Function | Amount |
|-----------------------|---|--------------|
| 0011 | Instruction | \$ 1,017,208 |
| 0012 | Instructional resources and media services | 38,926 |
| 0021 | Instructional leadership | 24,383 |
| 0023 | School leadership | 42,877 |
| 0031 | Guidance, counseling, and evaluation services | 15,373 |
| 0033 | Health services | 21,210 |
| 0034 | Student (pupil) transportation | 215,450 |
| 0035 | Food service | 79,641 |
| 0036 | Extracurricular activities | 221,132 |

(Continued)

SWEENEY INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED AUGUST 31, 2016****NOTE 5. CAPITAL ASSETS (Continued)**

| <u>Data Control Codes</u> | <u>Function</u> | <u>Amount</u> |
|-------------------------------|---|---------------------|
| 0041 | General administration | \$ 21,653 |
| 0051 | Facilities maintenance and operations | 99,809 |
| 0052 | Security and monitoring services | 2,882 |
| 0053 | Data processing services | 57,079 |
| 0061 | Community services | 8,935 |
| 0081 | Facilities acquisition and construction | <u>33,986</u> |
| | Total depreciation expense | <u>\$ 1,900,544</u> |

Governmental Fund Construction Commitments

At August 31, 2016, the District had the following construction commitments:

| <u>Project</u> | <u>Project Authorization</u> | <u>Expended To Date</u> | <u>Commitment</u> |
|------------------------------------|----------------------------------|-----------------------------|-------------------|
| Additional Outlets at JH | \$ 904,194 | \$ 893,573 | \$ 10,621 |
| JH Girls Dressing Room Renovations | 324,494 | 320,675 | 3,819 |
| HS Locker Room Renovations | 577,374 | 571,428 | 5,946 |
| HS Gym | 128,463 | 127,024 | 1,439 |
| HS Auditorium Restroom Renovation | 116,603 | 115,304 | 1,299 |
| HS Band Hall | 204,793 | 202,547 | 2,246 |
| HS Covered Walkway | 52,046 | 51,441 | 605 |
| Elem Additional Electrical Outlets | 416,620 | 412,012 | 4,608 |
| New Tech Lab at JH | 2,783,203 | 2,720,556 | 62,647 |
| New JH Boys Gym | 8,881,138 | 8,822,755 | 58,383 |
| Baseball Field | 4,914,746 | 4,878,126 | 36,620 |
| Softball Field | <u>4,109,840</u> | <u>4,073,220</u> | <u>36,620</u> |
| | <u>\$ 23,413,514</u> | <u>\$ 23,188,661</u> | <u>\$ 224,853</u> |

NOTE 6. LONG-TERM DEBT**Loans**

Short term debts are accounted for through the appropriate fund, and consist of notes made in accordance with the provisions of the Texas Education Code. This District was not a party to any loan transactions during the year ended August 31, 2016.

SWEENEY INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED AUGUST 31, 2016****NOTE 6. LONG-TERM DEBT (Continued)****General Obligation Bonds**

Long-term debt includes par bonds, capital appreciation (deep discount) serial bonds, contractual obligations and loans. Contractual obligations are issued at parity with general obligation bonds, but carry a secondary revenue stream pledge; however, all certificates of obligation are tax, not revenue, supported. This debt, unlike other tax-supported debt, can be issued without a vote of the citizens. Bond premiums and discounts, and gain and losses on refunding are amortized using the straight-line method.

The following is a summary of the District's general obligation bonded debt as of August 31, 2016:

| <u>Date of Issue</u> | <u>Original Issue</u> | <u>Final Maturity</u> | <u>% Rates</u> | <u>Outstanding Balance 08-31-16</u> |
|----------------------|---------------------------|---------------------------|----------------|---|
| 2005 QZAB | \$ 750,000 | 2022 | 0.500 | \$ 750,000 |
| 2008 | 9,500,000 | 2027 | 4.000-5.375 | 5,030,000 |
| 2012 | 9,205,870 | 2026 | 1.500-2.500 | 8,092,851 |
| 2013 | 2,000,000 | 2017 | 2.000-2.250 | 1,000,000 |
| 2014 | 9,685,000 | 2034 | 1.750-3.750 | 9,685,000 |
| 2015 | 9,500,000 | 2035 | 3.000-3.125 | 9,500,000 |
| 2015 QECB | 2,000,000 | 2030 | 1.386 | 1,870,000 |
| 2016 | <u>8,430,000</u> | 2035 | 3.000 | <u>8,305,000</u> |
| Total | \$ <u>51,070,870</u> | | | \$ <u>44,232,851</u> |

The following is a summary of general obligation bond transactions for the year ended August 31, 2016:

| | |
|---|----------------------|
| General Obligation Bond Balance – August 31, 2015 | \$ 36,044,689 |
| Issuance of bonds | 10,430,000 |
| Accretion | 13,162 |
| Maturities | <u>(2,255,000)</u> |
| General Obligation Bond Balance – August 31, 2016 | \$ <u>44,232,851</u> |

SWEENEY INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED AUGUST 31, 2016****NOTE 6. LONG-TERM DEBT (Continued)****General Obligation Bonds (Continued)**

Presented below is a summary of general obligation bond requirements to maturity:

| <u>Year Ended August 31</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Requirement</u> |
|---------------------------------|----------------------|----------------------|------------------------------|
| 2017 | \$ 2,925,000 | \$ 1,249,846 | \$ 4,174,846 |
| 2018 | 2,950,000 | 1,205,600 | 4,155,600 |
| 2019 | 2,835,000 | 1,119,804 | 3,954,804 |
| 2020 | 3,265,000 | 1,037,112 | 4,302,112 |
| 2021 | 3,235,000 | 941,264 | 4,176,264 |
| 2022-2026 | 15,275,000 | 3,415,898 | 18,690,898 |
| 2027-2031 | 8,325,000 | 1,619,421 | 9,944,421 |
| 2032-2035 | <u>5,430,000</u> | <u>409,464</u> | <u>5,839,464</u> |
| Totals | <u>\$ 44,240,000</u> | <u>\$ 10,998,409</u> | <u>\$ 55,238,409</u> |

The \$ 7,149 difference between the general obligation bonds outstanding at August 31, 2016 of \$ 44,232,851 and the general obligation bond principal requirements of \$ 44,240,000 represents the amount of capital appreciation bonds to be accreted as interest over the life of these bonds.

Bond indebtedness of the District is recorded in the governmental activities statement of net position, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. Proceeds of long-term issues are reflected as "Other Resources" in the operating statement of the recipient fund.

The District has entered into continuing disclosure undertaking to provide annual reports and material event notices to the State Information Depository of Texas (SID), which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of Sweeny Independent School District.

There are limitations and restrictions contained in the general obligation bond indentures. The District is in compliance with all significant limitations and restrictions at August 31, 2016.

Debt Issuances

General Obligation bonds consist of 2005 Unlimited Tax School Building Bonds ("Qualified Zone Academy Bonds") bearing interest at 0.5%. During the year ended August 31, 2007, the District entered into a repurchase agreement for the 2005 Unlimited Tax School Building Bonds ("Qualified Zone Academy Bonds"). The 2005 QZAB bonds repurchase agreement calls for an annual payment of \$ 37,307 and will yield an interest rate of 2.95% with a maturity date of December 15, 2021 and an expected yield of \$ 750,000. Payments are due each December 15th.

SWEENEY INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED AUGUST 31, 2016****NOTE 6. LONG-TERM DEBT (Continued)****Debt Issuances (Continued)**

Presented below is a summary of the sinking fund requirements:

| <u>Year Ended August 31</u> | <u>Annual Requirements</u> |
|---------------------------------|--------------------------------|
| 2017 | \$ 37,307 |
| 2018 | 37,307 |
| 2019 | 37,307 |
| 2020 | 37,307 |
| 2021 | 37,307 |
| 2022 | <u>37,307</u> |
| Total Minimum Requirements | \$ <u>223,842</u> |

During the year ended August 31, 2007, the District issued \$ 9,500,000 in Unlimited Tax School Building Bonds - Series 2007, bearing interest at 4.100% to 7.100% with a maturity of 2026. During the year ended August 31, 2013, the District refunded \$ 8,405,000 of these bonds with the issuance of the Unlimited Tax Refunding Bonds, Series 2012.

During the year ended August 31, 2008, the District issued \$ 9,500,000 in Unlimited Tax School Building Bonds - Series 2008, bearing interest at 4.000% to 5.375% with a maturity of 2027.

During the year ended August 31, 2013, the District issued \$ 8,405,000 in Unlimited Tax Refunding Bonds - Series 2012, bearing interest at 1.500% to 2.500% with a maturity of 2026. These bonds were used to refund \$ 8,405,000 of the Unlimited Tax School Building Bonds - Series 2007.

During the year ended August 31, 2014, the District issued \$ 2,000,000 in Unlimited Tax School Building Bonds - Series 2013, bearing interest at 2.000% to 2.500% with a maturity of 2017.

During the year ended August 31, 2014, the District issued \$ 9,685,000 in Unlimited Tax School Building Bonds - Series 2014, bearing interest at 1.750% to 3.750% with a maturity of 2034.

During the year ended August 31, 2015, the District issued \$ 9,500,000 in Unlimited Tax School Building Bonds – Series 2015, bearing interest at 3.000% to 3.125% with a maturity of 2035 for the construction of facilities.

During the year ended August 31, 2016, the District issued \$ 2,000,000 in Maintenance Tax Notes – Tax Credit Qualified Energy Conservation Bonds (QECB) – Series 2015, bearing interest at 4.620% with a maturity of 2030. These notes are available through the U.S. Department of Energy Green Community Program. The Notes contain a tax credit that is available to the purchaser of the bonds.

During the year ended August 31, 2016, the District issued \$ 8,430,000 in Unlimited Tax School Building – Series 2016, bearing interest at 3.000% with a maturity of 2035.

SWEENEY INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED AUGUST 31, 2016****NOTE 6. LONG-TERM DEBT (Continued)****Defeased Debt**

During the year ended August 31, 2013, the District issued \$ 8,405,000 in Unlimited Tax Refunding Bonds - Series 2012, for the refunding of previously issued Unlimited Tax School Building Bonds - Series 2007. The District placed the proceeds of the refunding, in the amount of \$ 9,389,893, in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the issue being refunded. The difference between the cash flow to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 1,092,224. The economic gain resulting from the transaction was \$ 1,000,308. The balance of the escrow account and the bonds payable at August 31, 2016 was \$ 8,976,659 and \$ 7,820,000, respectively.

Changes in Long-Term Liabilities

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

| | Balance 09-01-15 | Additions | Reductions | Balance 08-31-16 | Due Within One Year |
|---|----------------------|----------------------|---------------------|----------------------|------------------------|
| General obligation bonds | \$ 36,044,689 | \$ 10,443,162 | \$ 2,255,000 | \$ 44,232,851 | \$ 2,782,850 |
| Net pension obligation | 1,744,788 | 1,742,769 | 1,228,176 | 2,259,381 | |
| Components of Long-Term Debt: | | | | | |
| Premium on general obligation bonds payable | 1,276,477 | 642,086 | 102,967 | 1,815,596 | 116,955 |
| Accrued interest | 80,823 | 106,718 | 80,823 | 106,718 | 106,718 |
| Totals | <u>\$ 39,146,777</u> | <u>\$ 12,934,735</u> | <u>\$ 3,666,966</u> | <u>\$ 48,414,546</u> | <u>\$ 3,006,523</u> |

NOTE 7. LEASES**Operating Leases**

Commitments under operating lease (non-capital) agreements for copier and other equipment provides for minimum future rental payments as of August 31, 2016 as follows:

| Year Ended August 31 | Amount |
|-------------------------|-------------------|
| 2017 | \$ 83,976 |
| 2018 | 82,640 |
| 2019 | <u>37,260</u> |
| Total minimum rentals | <u>\$ 203,876</u> |

Rental expenditures on the above mentioned equipment for the year ended August 31, 2016 were \$ 85,202, while total rental expenditures were \$ 107,085.

SWEENY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 8. DEFINED BENEFIT PENSION PLANS

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

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

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

Benefits Provided – TRS provides services 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 credit service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in "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 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.

SWEENEY INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED AUGUST 31, 2016****NOTE 8. DEFINED BENEFIT PENSION PLANS (Continued)*****Contributions (Continued)***

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

Contribution Rates

| | <u>2015</u> | <u>2016</u> |
|---|-------------|-------------|
| Member | 6.7% | 7.2% |
| Non-Employer Contributing Entity (State) | 6.8% | 6.8% |
| Employers | 6.8% | 6.8% |
| Employer # 1202 – 2015 Employer Contributions | | \$ 189,261 |
| Employer # 1202 – 2015 Member Contributions | | \$ 164,652 |
| Employer # 1202 – 2015 NECE On-behalf Contributions | | \$ 572,933 |

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

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days 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.

SWEENEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 8. DEFINED BENEFIT PENSION PLANS (Continued)

Contributions (Continued)

In addition to the employer contributions listed above:

- 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 |
| Single Discount Rate | 8.00% |
| Long-term expected Investment Rate of Return | 8.00% |
| Inflation | 2.5% |
| Salary Increases including inflation | 3.5% to 9.5% |
| Payroll Growth Rate | 2.5% |
| Benefit changes during the year | None |
| Ad-hoc post-employment benefit changes | None |

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

Discount Rate – The discount rate used to measure the total pension liability was 8.00%. 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 statutory required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

SWEENEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 8. DEFINED BENEFIT PENSION PLANS (Continued)

Discount Rate (Continued)

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

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

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

| | 1% Decrease in Discount Rate (7.0%) | Discount Rate (8.0%) | 1% Increase in Discount Rate (9.0%) |
|---|-------------------------------------|----------------------|-------------------------------------|
| District's proportionate share of the Net pension liability | \$ <u>3,540,024</u> | \$ <u>2,259,381</u> | \$ <u>1,192,685</u> |

SWEENEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 8. DEFINED BENEFIT PENSION PLANS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At August 31, 2016, the District reported a liability of \$ 2,259,381 for its proportionate share of TRS's net pension liability. This liability reflects a reduction for 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 | \$ 2,259,381 |
| State's proportionate share that is associated with the District | <u>1,214,358</u> |
| Total | <u>\$ 3,473,739</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 contribution to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2014 through August 31, 2015.

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.0063917% which was a decrease of 0.0001403 % from its proportion measured as of August 31, 2014.

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

Economic Assumptions

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

Mortality Assumptions

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

SWEENEY INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED AUGUST 31, 2016

NOTE 8. DEFINED BENEFIT PENSION PLANS (Continued)***Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (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 adjustment 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 date.
10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

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

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

For the year ended August 31, 2016, the District recognized pension expense of \$ 347,063 and revenue of \$ 572,933 for support provided by the State.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ 19,458 | \$ 86,830 |
| Changes in actuarial assumptions | 81,779 | 80,605 |
| Difference between projected and actual investment earnings | 556,435 | 384,533 |
| Changes in proportion and difference between the employer's contributions and the proportionate share of contributions | | 32,539 |
| Contribution paid to TRS subsequent to the measurement date | <u>217,465</u> | |
| Total | <u>\$ 875,137</u> | <u>\$ 584,507</u> |

SWEENEY INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS**

YEAR ENDED AUGUST 31, 2016

NOTE 8. DEFINED BENEFIT PENSION PLANS (Continued)***Pension Liabilities, Pension Expense, and 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:

| <u>Year Ended August 31,</u> | <u>Pension Expense Amount</u> |
|------------------------------|---------------------------------------|
| 2017 | \$ (27,347) |
| 2018 | (27,347) |
| 2019 | (27,347) |
| 2020 | 105,973 |
| 2021 | 104,267 |
| Thereafter | (55,034) |

During the year ended August 31, 2016, the District received \$ 46,329 in Medicare Part D, on-behalf payments.

NOTE 9. GENERAL FUND FEDERAL SOURCE REVENUES

Following is a schedule of federal source revenue recorded in the General Fund.

| <u>Program or Source</u> | <u>CFDA Number</u> | <u>Total</u> |
|--------------------------|------------------------|-------------------------|
| Direct Costs: | | |
| Federal Refuge Act | 15.000 | \$ <u>37,662</u> |
| Total direct | | \$ <u><u>37,662</u></u> |

NOTE 10. LOCAL AND INTERMEDIATE REVENUES

During the year ended August 31, 2016, local and intermediate revenues for governmental funds consisted of the following:

| | <u>General Fund</u> | <u>Sweeny Education Foundation</u> | <u>Debt Service Fund</u> | <u>Capital Projects Fund</u> | <u>Other Governmental Funds</u> | <u>Total</u> |
|-------------------------|-------------------------|--|----------------------------------|--------------------------------------|---|----------------------|
| Property taxes | \$ 18,679,317 | \$ | \$ 3,081,680 | \$ | \$ | \$21,760,997 |
| Investment income | 21,939 | 143,641 | 16,991 | 29,642 | | 212,213 |
| Food sales | | | | | 392,743 | 392,743 |
| Enterprising activities | 4,420 | | | | | 4,420 |
| Extracurricular income | 88,932 | | | | | 88,932 |
| Gifts and bequests | 54,555 | 1,700 | | | 21,931 | 78,186 |
| Other | <u>110,303</u> | | | | | <u>110,303</u> |
| Totals | \$ <u>18,959,466</u> | \$ <u>145,341</u> | \$ <u>3,098,671</u> | \$ <u>29,642</u> | \$ <u>414,674</u> | \$ <u>22,647,794</u> |

SWEENY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 11. 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 year ended August 31, 2016, 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.

NOTE 12. RISK POOL PARTICIPATION

The District is a participant in the Texas Association of School Boards, Inc. (TASB) Risk Management for coverage of unemployment compensation and worker's compensation. The District pays annual premiums to the pool for coverage stated. The District participates in a pool and is not responsible for its own claims.

Unemployment Compensation Pool

During the year ended August 31, 2016, Sweeny ISD 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 Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

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

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

Workers' Compensation Pool

During the year ended August 31, 2016, Sweeny ISD met its statutory workers' compensation obligations through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

SWEENEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 12. RISK POOL PARTICIPATION (Continued)

Workers' Compensation Pool (Continued)

The Fund and its members are protected against higher than expected claims costs through the purchase of stop loss coverage for any claim in excess of the Fund's self-insured retention of \$ 2 million. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2015, the Fund carries a discounted reserve of \$ 58,364,320 for future development on reported claims and claims that have been incurred but not yet reported. For the year-ended August 31, 2016, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each plan year on August 31. The audit is 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.

NOTE 13. LITIGATION AND CONTINGENCIES

The District participates in numerous state and federal grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, if any, refunds of any money received may be required and the 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.

NOTE 14. JOINT VENTURED-SHARED SERVICE ARRANGEMENTS

The District participates in a Shared Services Arrangement ("SSA") for the hearing impaired through the Brazoria-Fort Bend Cooperative with eleven other school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Fort Bend Independent School District, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Sweeny Independent School District. The fiscal manager is responsible for all financial activities of the shared services arrangement. The amount of state revenues and expenditures attributable to the District's participation is not available. The District portion of cost covered by revenue received by the fiscal agent was \$ 7,646.

SWEENEY INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

NOTE 15. INTERLOCAL AGREEMENT

During the year ended August 31, 2016, the Sweeny Independent School District (SISD) entered into an interlocal agreement with Brazosport Independent School District (BISD) for management and director services for SISD's Child Nutrition Department. SISD agrees to supply necessary personnel including the Director position, equipment, supplies, food and other costs to operate the Child Nutrition Department. BISD agrees to provide consulting services including a dietician for shared menu development along with training opportunities to allow for continuous improvement of the current program. As part of the agreement, BISD will review SISD's current purchasing contracts and operating procedures and make recommendation for SISD's administration and Board to consider. In an effort to maintain operational consistencies between the two districts, SISD's employees will be included in trainings held at BISD. The parties intend that BISD, in performing such services, shall act as an independent contractor.

In consideration of the services above, SISD agrees to pay BISD \$ 10,000 annually.

The effective commencement date of this Agreement shall be September 1, 2015 and shall continue until August 31, 2016. Thereafter, this Agreement shall be automatically renewed on an annual basis, unless either party provides the other party with written notice of termination no less than sixty (60) days prior to any such renewal. Upon receipt of written notice, parties mutually agree to begin a transition period not to exceed 60 days. No reason has to be provided to end the agreement. Any modifications of the terms of this Agreement, upon any renewals thereof, shall be agreed to in writing by the parties.

NOTE 16. EVALUATION OF SUBSEQUENT EVENTS

A former employee of the District has filed a Charge of Discrimination with the EEOC alleging disability discrimination under the Americans with Disabilities Act; and sexual harassment and retaliation under Title VII of the Civil Rights Act of 1964. The District denies any claims of discrimination or retaliation. The complainant has retained legal counsel and on December 6, 2016, submitted a settlement demand to the District's legal counsel in the amount of \$400,000, and expressed her client's intent to file suit in this matter upon conclusion of the EEOC investigation. The District intends to reject this offer of settlement and will proceed forward in providing its response to the EEOC on this Charge of Discrimination.

The District has evaluated subsequent events through December 14, 2016, the date which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

SWEENEY INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL – GENERAL FUND YEAR ENDED AUGUST 31, 2016

Exhibit G-1
Page 1 of 1

| Data Control Codes | | General Fund | | | Variance with Final Budget Positive (Negative) |
|--------------------------|---|---------------------|---------------------|---------------------|---|
| | | Budgeted Amounts | | Actual | |
| | | Original | Final | | |
| | REVENUES: | | | | |
| 5700 | Local and intermediate sources | \$ 18,903,686 | \$ 18,948,966 | \$ 18,959,466 | \$ 10,500 |
| 5800 | State program revenues | 1,863,709 | 1,863,709 | 1,541,057 | (322,652) |
| 5900 | Federal program revenues | <u>200</u> | <u>200</u> | <u>37,662</u> | <u>37,462</u> |
| 5020 | Total revenues | <u>20,767,595</u> | <u>20,812,875</u> | <u>20,538,185</u> | <u>(274,690)</u> |
| | EXPENDITURES: | | | | |
| | Current: | | | | |
| 0011 | Instruction | 10,039,321 | 10,198,625 | 9,480,253 | 718,372 |
| 0012 | Instructional resources and media services | 228,632 | 250,080 | 222,781 | 27,299 |
| 0013 | Curriculum and staff development | 187,923 | 224,208 | 188,353 | 35,855 |
| 0021 | Instructional leadership | 464,636 | 539,753 | 476,937 | 62,816 |
| 0023 | School leadership | 1,155,009 | 1,173,253 | 1,066,783 | 106,470 |
| 0031 | Guidance, counseling, and evaluation services | 702,259 | 728,373 | 559,401 | 168,972 |
| 0033 | Health services | 220,949 | 245,949 | 223,253 | 22,696 |
| 0034 | Student (pupil) transportation | 911,339 | 919,339 | 722,224 | 197,115 |
| 0036 | Extracurricular activities | 822,592 | 1,318,687 | 1,215,978 | 102,709 |
| 0041 | General administration | 816,450 | 883,785 | 804,560 | 79,225 |
| 0051 | Facilities maintenance and operations | 2,012,604 | 2,586,315 | 2,360,438 | 225,877 |
| 0052 | Security and monitoring services | 84,580 | 112,021 | 88,848 | 23,173 |
| 0053 | Data processing services | 347,923 | 399,923 | 362,009 | 37,914 |
| 0071 | Principal on long term debt | 130,000 | 130,000 | 130,000 | -0- |
| 0072 | Interest on long-term debt | 28,000 | 28,000 | 24,717 | 3,283 |
| 0073 | Bond issuance costs and fees | | 67,500 | 62,425 | 5,075 |
| 0081 | Facilities acquisition and construction | | 45,886 | 45,886 | -0- |
| 0091 | Contracted instructional services | 1,912,222 | 1,582,222 | 1,417,833 | 164,389 |
| 0093 | Payments related to shared services arrangements | 545,000 | | | -0- |
| 0095 | Payments to Juvenile Justice Alternative Education Programs | 1,500 | 1,500 | | 1,500 |
| 0099 | Other intergovernmental charges | <u>141,000</u> | <u>148,079</u> | <u>148,079</u> | <u>-0-</u> |
| 6030 | Total expenditures | <u>20,751,939</u> | <u>21,583,498</u> | <u>19,600,758</u> | <u>1,982,740</u> |
| 1100 | Excess (deficiency) of revenues over expenditures | <u>15,656</u> | <u>(770,623)</u> | <u>937,427</u> | <u>1,708,050</u> |
| | OTHER FINANCING SOURCES (USES): | | | | |
| 7911 | Issuance of bonds | | 40,000 | 40,000 | -0- |
| 7915 | Transfers in | <u>20,000</u> | <u>566,936</u> | <u>500,830</u> | <u>(66,106)</u> |
| | Total other financing sources (uses) | <u>20,000</u> | <u>606,936</u> | <u>540,830</u> | <u>(66,106)</u> |
| 1200 | Net change in fund balances | 35,656 | (163,687) | 1,478,257 | 1,641,944 |
| 0100 | Fund balances – beginning | <u>5,512,566</u> | <u>5,512,566</u> | <u>5,512,566</u> | <u>-0-</u> |
| 3000 | Fund balances – ending | \$ <u>5,548,222</u> | \$ <u>5,348,879</u> | \$ <u>6,990,823</u> | \$ <u>1,641,944</u> |

SWEENEY INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND
RELATED RATIOS – COST SHARING EMPLOYER PLAN
AUGUST 31, 2016 WITH MEASUREMENT DATE OF AUGUST 31, 2015
FOR THE PRIOR TEN YEARS (1)**EXHIBIT G-2
Page 1 of 1

| | <u>2015</u> | <u>2016</u> |
|--|----------------------|----------------------|
| District's proportion of the net pension liability (assets) | 0.0065320% | 0.0063917% |
| District's proportionate share of the net pension liability (asset) | \$ 1,744,788 | \$ 2,259,381 |
| State's proportionate share of the net pension liability (asset) associated with the District | <u>1,053,704</u> | <u>1,214,358</u> |
| Total | <u>\$ 2,798,492</u> | <u>\$ 3,473,739</u> |
| District's covered-employee payroll | <u>\$ 11,098,109</u> | <u>\$ 12,061,878</u> |
| District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 15.72% | 18.73% |
| Plan fiduciary net position as a percentage of total pension liability | 83.25% | 78.43% |

(1) – The first TRS actuarial report was completed for the year ended August 31, 2014 (measurement date), therefore only two years of required supplementary information are available.

SWEENEY INDEPENDENT SCHOOL DISTRICT

SCHEDULE OF REQUIRED CONTRIBUTIONS – COST SHARING EMPLOYER PLAN
AUGUST 31, 2016 WITH MEASUREMENT DATE OF AUGUST 31, 2015
FOR THE PRIOR TEN YEARS (1)

EXHIBIT G-3
Page 1 of 1

| | <u>2015</u> | <u>2016</u> |
|--|----------------------|----------------------|
| Contractually required contributions | \$ 165,605 | \$ 189,261 |
| Contributions in relation to the contractually required contribution | <u>165,605</u> | <u>189,261</u> |
| Contribution deficiency (excess) | \$ <u>-0-</u> | \$ <u>-0-</u> |
| District's covered-employee payroll | \$ <u>11,098,109</u> | \$ <u>12,061,878</u> |
| Contributions as a percentage of covered-employee payroll | 1.49% | 1.57% |

(1) The first TRS actuarial report was completed for the year ended August 31, 2014 (measurement date), therefore, only two years of required supplemental information are available.

OTHER SUPPLEMENTARY INFORMATION

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

| Data Control Codes | | 211 | 224 | 225 | 240 | Special 244 |
|---|--|--|---------------------------|-----------------------------|---|--|
| | | ESEA Title I Part A Improving Basic Programs | IDEA Part B Formula | IDEA Part B Preschool | National School Lunch and Breakfast Program | Vocational Education Basic Grant |
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES: | | | | | | |
| Assets: | | | | | | |
| 1110 | Cash and cash equivalents | \$ | \$ | \$ | \$ 291,049 | \$ |
| 1240 | Receivables from other governments | 33,942 | 44,630 | 2,311 | 25,391 | 863 |
| 1260 | Due from other funds | | | | | |
| 1290 | Other receivables | | | | 8,540 | |
| 1300 | Inventories | | | | 42,417 | |
| 1410 | Prepaid items | | | | | |
| 1000 | Total assets | 33,942 | 44,630 | 2,311 | 367,397 | 863 |
| Deferred Outflows of Resources: | | | | | | |
| 1700 | Deferred outflows of resources | | | | | |
| | Total deferred outflows of resources | -0- | -0- | -0- | -0- | -0- |
| 1000A | Total assets and deferred outflows of resources | \$ 33,942 | \$ 44,630 | \$ 2,311 | \$ 367,397 | \$ 863 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES: | | | | | | |
| Liabilities: | | | | | | |
| 2110 | Accounts payable | \$ | \$ 2,364 | \$ | \$ 30,834 | \$ |
| 2160 | Accrued wages payable | 17,478 | 22,719 | 1,208 | 26,347 | |
| 2170 | Due to other funds | 16,464 | 19,547 | 1,103 | | 863 |
| 2300 | Unearned revenue | | | | 16,511 | |
| 2000 | Total liabilities | 33,942 | 44,630 | 2,311 | 73,692 | 863 |
| Deferred Inflows of Resources: | | | | | | |
| 2600 | Deferred inflows of resources | | | | | |
| | Total deferred inflows of resources | -0- | -0- | -0- | -0- | -0- |
| Fund Balances: | | | | | | |
| 3410 | Non-spendable - Inventories | | | | 42,417 | |
| 3450 | Restricted - Grant funds | | | | 251,288 | |
| 3000 | Total fund balances | -0- | -0- | -0- | 293,705 | -0- |
| 4000 | Total liabilities, deferred inflows of resources, and fund balances | \$ 33,942 | \$ 44,630 | \$ 2,311 | \$ 367,397 | \$ 863 |

| Revenue Funds | | | | | | | |
|--|--|---|-----------------------------|--|--------------------------------------|----------------------------|-------------------------------|
| 255 Title II Part A: Teacher and Principal Training and Recruitment | 263 Title III Part A Language Education Program | 289 Summer School Language Education Program | 397 Campus Awards | 410 Instructional Materials Allotment (MA) | 429 AP/IB Campus Awards | 480 Local Grants | 481 Security Grants |
| \$ 21,086 5,183 | \$ | \$ | \$ | \$ 3,769 9,151 | \$ | \$ 29,916 | \$ 54 |
| | | | | 8,750 | | | |
| 26,269 | -0- | -0- | -0- | 21,670 | -0- | 29,916 | 54 |
| -0- | -0- | -0- | -0- | -0- | -0- | -0- | -0- |
| \$ 26,269 | \$ -0- | \$ -0- | \$ -0- | \$ 21,670 | \$ -0- | \$ 29,916 | \$ 54 |
| \$ 5,377 20,892 | \$ | \$ | \$ | \$ 2,000 | \$ | \$ 169 | \$ |
| | | | | 19,670 | | 29,747 | 54 |
| 26,269 | -0- | -0- | -0- | 21,670 | -0- | 29,916 | 54 |
| -0- | -0- | -0- | -0- | -0- | -0- | -0- | -0- |
| -0- | -0- | -0- | -0- | -0- | -0- | -0- | -0- |
| \$ 26,269 | \$ -0- | \$ -0- | \$ -0- | \$ 21,670 | \$ -0- | \$ 29,916 | \$ 54 |

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

EXHIBIT H-1
Page 2 of 2

| | | Special Revenue Fund 482 | |
|---|---|-----------------------------------|---|
| Data Control Codes | | Technology Grants | Total Non-major Governmental Funds |
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES: | | | |
| Assets: | | | |
| 1110 | Cash and cash equivalents | \$ 34,728 | \$ 359,516 |
| 1240 | Receivables from other governments | | 137,374 |
| 1260 | Due from other funds | | 5,183 |
| 1290 | Other receivables | | 8,540 |
| 1300 | Inventories | | 42,417 |
| 1410 | Prepaid items | | 8,750 |
| 1000 | Total assets | 34,728 | 561,780 |
| Deferred Outflows of Resources: | | | |
| 1700 | Deferred outflows of resources | | -0- |
| | Total deferred outflows of resources | -0- | -0- |
| 1000A | Total assets and deferred outflows of resources | \$ 34,728 | \$ 561,780 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES: | | | |
| Liabilities: | | | |
| 2110 | Accounts payable | \$ | \$ 35,367 |
| 2160 | Accrued wages payable | | 73,129 |
| 2170 | Due to other funds | | 58,869 |
| 2300 | Unearned revenue | | 65,982 |
| 2000 | Total liabilities | -0- | 233,347 |
| Deferred Inflows of Resources: | | | |
| 2600 | Deferred inflows of resources | | -0- |
| | Total deferred inflows of resources | -0- | -0- |
| Fund Balances: | | | |
| 3410 | Non-spendable - Inventories | | 42,417 |
| 3450 | Restricted - Grant funds | 34,728 | 286,016 |
| 3000 | Total fund balances | 34,728 | 328,433 |
| 4000 | Total liabilities, deferred inflows of resources and fund balances | \$ 34,728 | \$ 561,780 |

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SWEENEY INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES

AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS

YEAR ENDED AUGUST 31, 2016

| Data Control Codes | | Special | | | | |
|--------------------------|---|---|----------------------------------|------------------------------------|--|---|
| | | 211 ESEA Title I Part A Improving Basic Programs | 224 IDEA Part B Formula | 225 IDEA Part B Preschool | 240 National School Lunch and Breakfast Program | 244 Vocational Education Program |
| | REVENUES: | | | | | |
| 5700 | Local and intermediate sources | \$ | \$ | \$ | \$ 392,743 | \$ |
| 5800 | State program revenues | | | | 22,405 | |
| 5900 | Federal program revenues | <u>232,277</u> | <u>348,347</u> | <u>14,873</u> | <u>622,261</u> | <u>13,933</u> |
| 5020 | Total revenues | <u>232,277</u> | <u>348,347</u> | <u>14,873</u> | <u>1,037,409</u> | <u>13,933</u> |
| | EXPENDITURES: | | | | | |
| | Current: | | | | | |
| 0011 | Instruction | 226,305 | 287,518 | 14,783 | | |
| 0013 | Curriculum and staff development | | | 90 | | |
| 0021 | Instructional leadership | 5,972 | 8,495 | | | 13,933 |
| 0023 | School leadership | | | | | |
| 0031 | Guidance, counseling and evaluation services | | 44,688 | | | |
| 0035 | Food Services | | | | 1,087,899 | |
| 0093 | Payments related to shared service arrangements | | <u>7,646</u> | | | |
| 6030 | Total expenditures | <u>232,277</u> | <u>348,347</u> | <u>14,873</u> | <u>1,087,899</u> | <u>13,933</u> |
| 1100 | Excess (deficiency) of revenues over expenditures | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>(50,490)</u> | <u>-0-</u> |
| 0100 | Fund balances - beginning | | | | 344,195 | |
| 3000 | Fund balances - ending | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ 293,705</u> | <u>\$ -0-</u> |

| Revenue Funds | | | | | | | |
|--|--|---|-----------------------------|--|--------------------------------------|----------------------------|-------------------------------|
| 255 Title II Part A: Teacher and Principal Training and Recruitment | 263 Title III Part A Language Education Program | 289 Summer School Language Education program | 397 Campus Awards | 410 Instructional Materials Allotment (MA) | 429 AP/IB Campus Awards | 480 Local Grants | 481 Security Grants |
| \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| | | | 8,100 | 182,281 | 1,155 | 21,931 | |
| <u>108,908</u> | <u>1,085</u> | <u>1,113</u> | | | | | |
| <u>108,908</u> | <u>1,085</u> | <u>1,113</u> | <u>8,100</u> | <u>182,281</u> | <u>1,155</u> | <u>21,931</u> | <u>-0-</u> |
| 62,195 | 125 | 1,113 | 387 | 182,281 | 1,155 | 21,841 | |
| 24,999 | 960 | | 7,713 | | | | |
| 21,272 | | | | | | 90 | |
| 442 | | | | | | | |
| <u>108,908</u> | <u>1,085</u> | <u>1,113</u> | <u>8,100</u> | <u>182,281</u> | <u>1,155</u> | <u>21,931</u> | <u>-0-</u> |
| -0- | -0- | -0- | -0- | -0- | -0- | -0- | |
| <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> | <u>\$ -0-</u> |

SWEENEY INDEPENDENT SCHOOL DISTRICT**COMBINING STATEMENT OF REVENUES, EXPENDITURES****AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**
YEAR ENDED AUGUST 31, 2016**EXHIBIT H-2****Page 2 of 2**

| Data Control Codes | | Special Revenue Fund | Total Non-major Governmental Funds |
|--------------------------|---|----------------------------|---|
| | | 482 | |
| | REVENUES: | | |
| 5700 | Local and intermediate sources | \$ | \$ 414,674 |
| 5800 | State program revenues | | 213,941 |
| 5900 | Federal program revenues | | <u>1,342,797</u> |
| 5020 | Total revenues | <u>-0-</u> | <u>1,971,412</u> |
| | EXPENDITURES: | | |
| | Current: | | |
| 0011 | Instruction | 17,367 | 815,070 |
| 0013 | Curriculum and staff development | | 33,762 |
| 0021 | Instructional leadership | | 49,762 |
| 0023 | School leadership | | 442 |
| 0031 | Guidance, counseling, and evaluation services | | 44,688 |
| 0035 | Food service | | 1,087,899 |
| 0093 | Payments related to shared service arrangements | | <u>7,646</u> |
| 6030 | Total expenditures | <u>17,367</u> | <u>2,039,269</u> |
| 1100 | Excess (deficiency) of revenues over expenditures | <u>(17,367)</u> | <u>(67,857)</u> |
| 0100 | Fund balances - beginning | <u>52,095</u> | <u>396,290</u> |
| 3000 | Fund balances - ending | <u>\$ 34,728</u> | <u>\$ 328,433</u> |

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

| Last Ten Years Ended August 31, | 1 | | 2 | | 3 | | 10 | |
|------------------------------------|-------------|--|--------------|--|--|--|--|--|
| | Tax Rates | | | | Assessed/Appraised Value for School Tax Purposes | | Beginning Balance September 1, 2015 | |
| | Maintenance | | Debt Service | | | | | |
| 2007 and Prior | \$ 1.50000 | | \$ 0.17100 | | \$ 1,417,483,853 | | \$ 210,170 | |
| 2008 | 1.37000 | | 0.17170 | | 1,499,562,717 | | 20,000 | |
| 2009 | 1.04000 | | 0.17170 | | 1,687,030,453 | | 18,178 | |
| 2010 | 1.04000 | | 0.17170 | | 1,397,632,087 | | 21,265 | |
| 2011 | 1.04000 | | 0.17170 | | 1,291,306,512 | | 20,181 | |
| 2012 | 1.04000 | | 0.17170 | | 1,266,082,281 | | 22,183 | |
| 2013 | 1.04000 | | 0.17170 | | 1,273,678,303 | | 23,845 | |
| 2014 | 1.04000 | | 0.17170 | | 1,385,441,281 | | 36,419 | |
| 2015 | 1.04000 | | 0.17170 | | 1,416,575,225 | | 69,421 | |
| 2016 (School Year under Audit) | 1.04000 | | 0.17170 | | 1,790,173,475 | | <u>142,533</u> | |
| 1000 Totals | | | | | | | \$ <u>584,195</u> | |

| 20 | 31 | 32 | 40 | 50 |
|---------------------------------|-------------------------------------|--------------------------------------|---------------------------------|---|
| Current Year's Total Levy | Maintenance Total Collections | Debt Service Total Collections | Entire Year's Adjustments | Ending Balance August 31, 2016 |
| \$ | \$ 10,329 | \$ 1,065 | \$(40,427) | \$ 158,349 |
| | 811 | 134 | (331) | 18,724 |
| | 886 | 146 | (381) | 16,765 |
| | 2,012 | 332 | (275) | 18,646 |
| | 3,224 | 532 | (275) | 16,150 |
| | 4,559 | 753 | 1,421 | 18,292 |
| | 9,066 | 1,497 | (189) | 13,093 |
| | 21,890 | 3,614 | 107 | 11,022 |
| | 62,368 | 10,297 | (6,017) | (9,261) |
| <u>21,691,532</u> | <u>18,321,945</u> | <u>3,024,883</u> | <u>(164,789)</u> | <u>322,448</u> |
| <u>\$ 21,691,532</u> | <u>\$ 18,437,090</u> | <u>\$ 3,043,253</u> | <u>\$(211,156)</u> | <u>\$ 584,228</u> |

SWEENEY INDEPENDENT SCHOOL DISTRICT**FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET****GENERAL FUND****AUGUST 31, 2016****UNAUDITED****EXHIBIT J-3****Page 1 of 1**

| Data Control Code | Explanation | Amount |
|-------------------------|--|------------------------|
| 1 | Total General Fund Balance as of 08/31/15 (Exhibit C-1 object 3000 for the General Fund only) | \$ <u>6,990,823</u> |
| 2 | Total Non-Spendable Fund Balance (from Exhibit C-1 - total of object 341X-344X for the General Fund only) | 221,908 |
| 3 | Total Restricted Fund Balance (from Exhibit C-1 - total of object 345X-349X for the General Fund only) | |
| 4 | Total Committed Fund Balance (from Exhibit C-1 - total of object 351X-354X for the General Fund only) | 600,000 |
| 5 | Total Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only) | 2,476,715 |
| 6 | Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds representing unearned revenues) | 2,595,120 |
| 7 | Estimate of two month's average cash disbursements during the fiscal year. | 3,276,405 |
| 8 | Estimate of delayed payments from state sources (58XX) | |
| 9 | Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount | |
| 10 | Estimate of delayed payments from federal sources (59XX) | |
| 11 | Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds) | |
| 12 | Optimum fund balance and cash flow (2+3+4+5+6+7+8+9+10+11) | <u>9,170,148</u> |
| 13 | Excess (deficit) unassigned General Fund fund balance (1-12) | <u>\$(2,179,325)</u> |

SWEENEY INDEPENDENT SCHOOL DISTRICT
BUDGETARY COMPARISON SCHEDULE – NONMAJOR FUND
– FOOD SERVICE SPECIAL REVENUE FUND
YEAR ENDED AUGUST 31, 2016

EXHIBIT J-4
Page 1 of 1

| | | Food Service Special Revenue Fund | | | Variance with Final Budget Positive (Negative) |
|--------------------------|---|-----------------------------------|--------------------|-------------------|---|
| Data Control Codes | | Budgeted Amounts | | Actual | |
| | | Original | Final | | |
| | REVENUES: | | | | |
| 5700 | Local and intermediate sources | \$ 392,000 | \$ 392,000 | \$ 392,743 | \$ 743 |
| 5800 | State program revenues | 18,600 | 18,600 | 22,405 | 3,805 |
| 5900 | Federal program revenues | <u>618,000</u> | <u>618,000</u> | <u>622,261</u> | <u>4,261</u> |
| 5020 | Total revenues | <u>1,028,600</u> | <u>1,028,600</u> | <u>1,037,409</u> | <u>8,809</u> |
| | EXPENDITURES: | | | | |
| | Current: | | | | |
| 0035 | Food services | <u>1,156,197</u> | <u>1,240,038</u> | <u>1,087,899</u> | <u>152,139</u> |
| 6030 | Total expenditures | <u>1,156,197</u> | <u>1,240,038</u> | <u>1,087,899</u> | <u>152,139</u> |
| 1100 | Excess (deficiency) of revenues over expenditures | (<u>127,597</u>) | (<u>211,438</u>) | (<u>50,490</u>) | <u>160,948</u> |
| 0100 | Fund balances – beginning | <u>344,195</u> | <u>344,195</u> | <u>344,195</u> | <u>-0-</u> |
| 3000 | Fund balances – ending | <u>\$ 216,598</u> | <u>\$ 132,757</u> | <u>\$ 293,705</u> | <u>\$ 160,948</u> |

SWEENEY INDEPENDENT SCHOOL DISTRICT**BUDGETARY COMPARISON SCHEDULE – DEBT SERVICE FUND**
YEAR ENDED AUGUST 31, 2016**EXHIBIT J-5****Page 1 of 1**

| | | Debt Service Fund | | | Variance with Final Budget Positive (Negative) |
|--------------------------|---|-------------------|--------------|--------------|---|
| Data Control Codes | | Budgeted Amounts | | Actual | |
| | | Original | Final | | |
| | REVENUES: | | | | |
| 5700 | Local and intermediate sources | \$ 3,066,197 | \$ 3,066,197 | \$ 3,098,671 | \$ 32,474 |
| 5800 | State program revenues | | | 38,401 | 38,401 |
| 5020 | Total revenues | 3,066,197 | 3,066,197 | 3,137,072 | 70,875 |
| | EXPENDITURES: | | | | |
| | Current: | | | | |
| 0071 | Principal on long-term debt | 1,604,612 | 2,125,000 | 2,125,000 | -0- |
| 0072 | Interest on long-term debt | 1,473,019 | 1,167,427 | 1,167,427 | -0- |
| 0073 | Bond issuance costs and fees | 300,000 | 407,290 | 142,329 | 264,961 |
| 6030 | Total expenditures | 3,377,631 | 3,699,717 | 3,434,756 | 264,961 |
| 1100 | Excess (deficiency) of revenues over expenditures | (311,434) | (633,520) | (297,684) | 335,836 |
| | OTHER FINANCING SOURCES (USES): | | | | |
| 7916 | Premium on issuance of bonds | | 322,086 | 322,086 | -0- |
| | Total other financing sources and (uses) | -0- | 322,086 | 322,086 | -0- |
| 1200 | Net change in fund balances | (311,434) | (311,434) | 24,402 | 335,836 |
| 0100 | Fund balances – beginning | 1,445,634 | 1,445,634 | 1,445,634 | -0- |
| 3000 | Fund balances – ending | \$ 1,134,200 | \$ 1,134,200 | \$ 1,470,036 | \$ 335,836 |

FEDERAL AWARDS SECTION

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Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

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8 West Way Court
Lake Jackson, Texas 77566
979-297-4075

Angleton Office:
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201 W. Webb
El Campo, Texas 77437
979-543-6836

Houston Office:
10850 Richmond Ave., Ste 135
Houston, Texas 77042
281-974-3416

Independent Auditor's Report

On Internal Control over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*

To the Board of Trustees
Sweeny Independent School District
Sweeny, Texas 77480

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Sweeny Independent School District (the "District"), as of and for year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 14, 2016.

Internal Control over Financial Reporting

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

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

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

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Compliance and Other Matters

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

Purpose of this Report

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

Kennemer, Masters & Hungford, LLC

Lake Jackson, Texas
December 14, 2016

Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS
Limited Liability Company

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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

To the Board of Trustees
Sweeny Independent School District
Sweeny, Texas 77480

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

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Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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.

Kennemer, Masters & Hunsford, LLC

Lake Jackson, Texas 77566
December 14, 2016

SWEENEY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED AUGUST 31, 2016

Page 1 of 1

I. Summary of auditors' results:

1. Type of auditor's report issued on the financial statements: Unmodified.
2. No internal control findings, required to be reported in this schedule, were disclosed in the audit of the financial statements.
3. Noncompliance, which is material to the financial statements: None.
4. No internal control findings, required to be reported in this schedule, were disclosed in the audit of major programs.
5. Type of auditor's report on compliance for major programs: Unmodified
6. Did the audit disclose findings which are required to be reported in accordance with 2 CFR Sec. 200.516(a): No
7. Major programs include:
Cluster Program:
 - National School Breakfast Program – CFDA #10.553
 - National School Lunch Program – CFDA #10.555
 - Commodity Supplement Program – CFDA #10.555
8. Dollar threshold used to distinguish between Type A and Type B programs: \$ 750,000
9. Low risk auditee: No.

II. Findings related to the financial statements:

The audit disclosed no findings required to be reported.

III. Findings and questioned costs related to the federal awards.

The audit disclosed no findings required to be reported.

SWEENEY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR FINDINGS
YEAR ENDED AUGUST 31, 2016

Page 1 of 1

1. Schedule Reference Number 2015-001: Internal control over general ledger balances and related overstated federal program reimbursement amounts.

Corrective Action Taken: The Business Director provided a training to the payroll specialist on recording the payroll accrual. The District has also implemented additional procedures to ensure the month has been properly closed prior to submitting grant reimbursements.

SWEENY INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
YEAR ENDED AUGUST 31, 2016

Page 1 of 1

None.

SWEENEY INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2016

EXHIBIT K-1
Page 1 of 1

| (1) | (2) | (2A) | (3) |
|--|---------------------|--|----------------------|
| Federal Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | Pass-Through Entity Identifying Number | Federal Expenditures |
| <u>U.S. Department of Education</u> | | | |
| Passed Through State Department of Education: | | | |
| ESEA, Title I, Part A, Improving Basic Programs | 84.010 | 16610101020906 | \$ 214,799 |
| ESEA, Title I, Part A, Improving Basic Programs | 84.010 | 17610101020906 | <u>17,478</u> |
| | | | <u>232,277</u> |
| IDEA - Part B, Formula* | 84.027 | 16660001020906 | 325,628 |
| IDEA - Part B, Formula* | 84.027 | 17660001020906 | <u>22,719</u> |
| | | | <u>348,347</u> |
| IDEA - Part B, Preschool* | 84.173 | 16661001020906 | 13,666 |
| IDEA - Part B, Preschool* | 84.173 | 17661001020906 | <u>1,207</u> |
| | | | <u>14,873</u> |
| Vocational Education, Basic Grant | 84.048 | 5420006020906 | <u>13,933</u> |
| ESEA, Title II, Part A: Teacher and Principal Training And Recruiting | 84.367A | 16694501020906 | 103,531 |
| ESEA, Title II, Part A: Teacher and Principal Training And Recruiting | 84.367A | 17694501020906 | <u>5,377</u> |
| | | | <u>108,908</u> |
| Title III, English Language Acquisition and Enhancement | 84.365 | 6493SW | <u>1,085</u> |
| Summer School Language Education Program | 84.369A | 69551502 | <u>1,113</u> |
| TOTAL U.S. DEPARTMENT OF EDUCATION | | | \$ <u>720,536</u> |
| <u>U.S. Department of Agriculture</u> | | | |
| Direct Program: | | | |
| Commodity Supplement Program** | 10.555 | 020906 | \$ <u>29,754</u> |
| Passed Through State Department of Education: | | | |
| School Breakfast Program** | 10.553 | 71401601 | 138,203 |
| National School Lunch Program** | 10.555 | 71301601 | <u>454,304</u> |
| | | | <u>592,507</u> |
| TOTAL U.S. DEPARTMENT OF AGRICULTURE | | | \$ <u>622,261</u> |
| TOTAL FEDERAL ASSISTANCE | | | \$ <u>1,342,797</u> |
| *IDEA Cluster Program | | | |
| ** National School Lunch Cluster Programs | | | |
| Reconciliation: | | | |
| Federal program revenues (Exhibit C-2) | | | \$ 1,380,459 |
| Less: | | | |
| Refuge Revenue Sharing Act of 1978 not considered | | | |
| Federal Revenue for the Schedule of Federal Awards | | | <u>37,662</u> |
| Total federal financial assistance (Schedule of Expenditures of Federal Awards). | | | \$ <u>1,342,797</u> |

See notes to supplemental Schedule of Expenditures of Federal Awards.

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

NOTE 1 – BASIS OF ACCOUNTING

The District accounts for all awards under federal programs in the General and certain special revenue funds in accordance with the Texas Education Agency's *Financial Accountability System Resource Guide*. These programs are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and deferred outflows of resources, and current liabilities and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e. revenues and other financing sources) and decreases (i.e. expenditures and other financing uses) in net current position.

The modified accrual basis of accounting is used for these funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e. both measurable and available, and expenditures in the accounting period in which the liability is incurred, if measurable, except for certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as unearned revenues until earned. Generally unused balances are returned to the grantor at the close of specified project periods.

Commodity Supplement (CFDA 10.555) received like kind goods and no grant revenue received was reported on the schedule for the monetary value of these goods. The monetary value of goods received was \$ 23,141, while the monetary value of goods used and recognized as income and expenditures was \$ 29,754.

NOTE 2 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of the District under programs of the federal government for the year ended August 31, 2016. The information in the Schedule is presented in accordance with the 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)*. Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net position or cash flows of the District.

NOTE 3 – RECONCILIATION TO BASIC FINANCIAL STATEMENTS

The following is a reconciliation of expenditures of federal awards program per Exhibit K-1 and expenditures reported on Exhibit C-2:

| | |
|---|---------------------|
| Total shown on Schedule of Expenditures of Federal Awards (Exhibit K-1) | \$ 1,342,797 |
| Federal Revenue Not Included in the Schedule of Federal Awards: | |
| Refuge Revenue Sharing Act of 1978 | <u>37,662</u> |
| Total federal revenue (Exhibit C-2) | <u>\$ 1,380,459</u> |

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SCHEDULE FOR ELECTRONIC FILING

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SWEENEY INDEPENDENT SCHOOL DISTRICT*REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS*
AUGUST 31, 2016*SCHEDULE L-1**Page 1 of 1*

| <u>Code</u> | <u>Questions</u> | <u>Responses</u> |
|-------------|---|------------------|
| SF2 | Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year-end? | No |
| SF4 | Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole? | Yes |
| SF5 | Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds? | No |
| SF6 | Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts and laws related to local, state, or federal funds? | No |
| SF7 | Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies? | Yes |
| SF8 | Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship? | Yes |
| SF10 | Total accumulated accretion on CABs included in the government-wide financial statements at fiscal year-end? | \$ 46,980 |
| SF11 | Net Pension Assets (1920) at fiscal year-end. | \$ -0- |
| SF12 | Net Pension Liabilities (2540) at fiscal year-end. | \$ 2,259,381 |
| SF13 | Pension Expense (6147) at fiscal year-end. | \$ 347,063 |

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