

**PEARLAND
INDEPENDENT SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

**FOR THE YEAR ENDED
JUNE 30, 2016**

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

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PEARLAND INDEPENDENT SCHOOL DISTRICT

Annual Financial Report For the Year Ended June 30, 2016

Table of Contents

| <u>Exhibit Number</u> | | <u>Page Number</u> |
|-------------------------------------------|-----------------------------------------------------------------------------------------------------------------------|------------------------|
| Introductory Section | | |
| | Certificate of Board | 7 |
| Financial Section | | |
| | Independent Auditor's Report | 11-13 |
| | Management's Discussion and Analysis | 15-26 |
| | Basic Financial Statements: | |
| A-1 | Statement of Net Position | 27 |
| B-1 | Statement of Activities | 28 |
| | Governmental Fund Financial Statements: | |
| C-1 | Balance Sheet | 29 |
| C-1R | Reconciliation of C-1 | 30 |
| C-2 | Statement of Revenues, Expenditures, and Changes in Fund Balances | 32-33 |
| C-2R | Reconciliation of C-2 | 34-35 |
| | Proprietary Fund Financial Statements: | |
| D-1 | Statement of Net Position | 36 |
| D-2 | Statement of Revenues, Expenses and Changes in Fund Net Position | 37 |
| D-3 | Statement of Cash Flow | 38 |
| | Fiduciary Fund Financial Statements: | |
| E-1 | Statement of Fiduciary Net Position | 39 |
| | Notes to the Financial Statements | 41-75 |
| Required Supplementary Information | | |
| G-1 | Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual - General Fund | 78 |
| G-2 | Schedule of Proportionate Share of the Net Pension Liability and Related Ratios – Cost Sharing Employer Plan | 79 |
| G-3 | Schedule of Required Contributions – Cost Sharing Employer Plan | 80 |
| Other Supplementary Information | | |
| | Nonmajor Governmental Funds: | |
| H-1 | Combining Balance Sheet | 82-84 |
| H-2 | Combining Statement of Revenues, Expenditures and Changes in Fund Balances | 86-88 |
| | Required Texas Education Agency Schedules: | |
| J-1 | Schedule of Delinquent Taxes Receivable | 90-91 |
| J-3 | Fund Balance and Cash Flow Calculation Worksheet | 92 |
| J-4 | Budgetary Comparison Schedule – Nonmajor Fund – Food Service Special Revenue Fund | 93 |
| J-5 | Budgetary Comparison Schedule – Debt Service Fund | 94 |

PEARLAND INDEPENDENT SCHOOL DISTRICT

*Annual Financial Report
For the Year Ended June 30, 2016*

Table of Contents - Continued

| <u>Exhibit Number</u> | | <u>Page Number</u> |
|---------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| | Federal Awards Section | |
| | Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 97-98 |
| | Report on Compliance for each Major Program and on Internal Control over Compliance Required by the Uniform Guidance | 99-100 |
| | Schedule of Findings and Questioned Costs..... | 101 |
| | Schedule of Status of Prior Findings | 102 |
| | Corrective Action Plan | 103 |
| K-1 | Schedule of Expenditures of Federal Awards..... | 104-105 |
| | Notes on Accounting Policies for Federal Awards..... | 106 |

The Following Exhibits Were Not Applicable to the Pearland Independent School District:

| | | |
|-----|-------------------------------------------------------------------------------------|--|
| | Fiduciary Fund Financial Statements: | |
| E-2 | Statement of Changes in Fiduciary Net Position | |
| | Combining Statement for Major Component Units: | |
| F-1 | Combining Statement of Net Position | |
| F-2 | Combining Statement of Activities | |
| | Internal Service Funds: | |
| H-3 | Combining Statement of Net Position..... | |
| H-4 | Combining Statement of Revenues, Expenses and Changes in Fund Net Position | |
| H-5 | Combining Statement of Cash Flows | |
| | Required Texas Education Agency Schedules: | |
| J-2 | Schedule of Expenditures for Computation of Indirect Cost | |

INTRODUCTORY SECTION

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CERTIFICATE OF BOARD

Pearland Independent School District
Name of School District

Brazoria
County

020-908
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one) X approved _____ disapproved for the year ended June 30, 2016, at a meeting of the board of trustees of such school district on the 15th day of November, 2016.


Signature of Board Secretary


Signature of Board President

If the Board of Trustees disapproved of the auditor's 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
979-297-4075

Angleton Office:

2801 N. Velasco Suite C
Angleton, Texas 77515
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Houston, Texas 77042
281-974-3416

Independent Auditor's Report

To the Board of Trustees
Pearland Independent School District
Pearland, Texas 77588

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 Pearland Independent School District (the "District") as of and for the year ended June 30, 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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Partnering for CPA Practice Success

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 Pearland Independent School District, as of June 30, 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion analysis on pages 15 through 26, budgetary comparison information on page 78, and required pension schedules on pages 79 through 80 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* (Uniform Guidance), and is also not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements, the 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

Other Information – (Continued)

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.

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 November 4, 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.

Kennemer, Masters & Hunford, LLC

Lake Jackson, Texas
November 4, 2016

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PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

As management of the Pearland 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 June 30, 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 \$ 68,097,655 (*net position*). Of this amount, \$ 17,128,959 (*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 \$ 80,621,009. Approximately 34 percent of this total amount, \$ 27,778,841, 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 \$ 27,778,841, or 17 percent of the total general fund expenditures.
- During the year, the District reported net pension liability of \$ 37,625,477, at June 30, 2016. This compares to last year's June 30, 2015 balance of \$ 16,258,097, with the implementation of GASB Statements Nos. 68 and 71.
- On August 12, 2015, The District sold land (Lot 1 Block 1, Minor Plat Bailey Business Park, Brazoria County, Texas) to the City of Pearland for \$ 2,639,044, and received the net proceeds of \$ 2,625,612 on August 13, 2015. The District's long-range plans did not contemplate an official use for this land. This resulted in a gain of \$ 1,156,502 on the sale of land and is reported as a special item in the Statement of Activities.

Overview of the Financial Statements

This discussion and analysis is 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 between the two 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* and no component units for which it is financially accountable. The government-wide financial statements can be found on pages 27 through 28 of this report.

PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 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, government 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 government 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 seventeen (17) 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, debt service fund, and the capital projects fund, each of which are considered to be major funds. Data from the other fourteen (14) 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 29 through 35 of this report.
- **Proprietary funds.** *Proprietary funds* provide the same type of information as the government-wide financial statements, only in more detail. There are two proprietary fund types. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. As mentioned above in the government-wide definition, the District has no *business-type activities* or *enterprise funds*. The second type of proprietary fund is the *internal service fund*. Internal service funds are an accounting device used to accumulate and allocate costs internally among the various functions. The District uses the *internal service fund* to report activities for its self-funded workers' compensation insurance program. The basic proprietary fund financial statements can be found on pages 36 through 38 of this report.

PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

- **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 page 39. These activities are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

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 41 through 75 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 78 through 80 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 82 through 88 of this report.

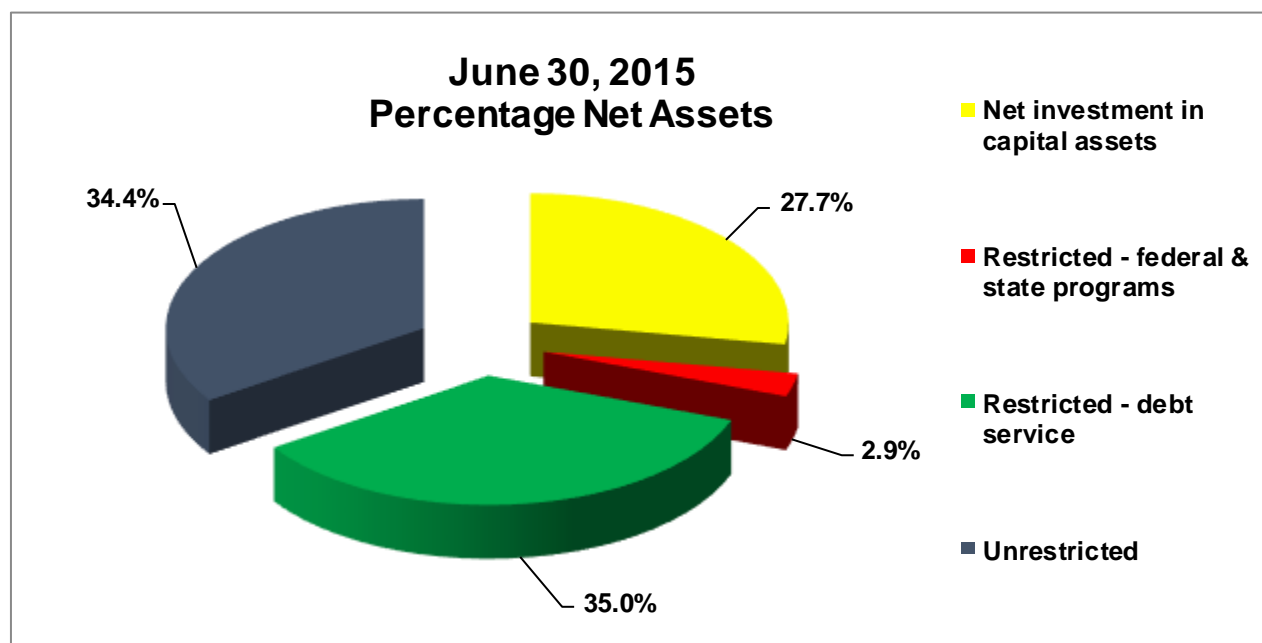
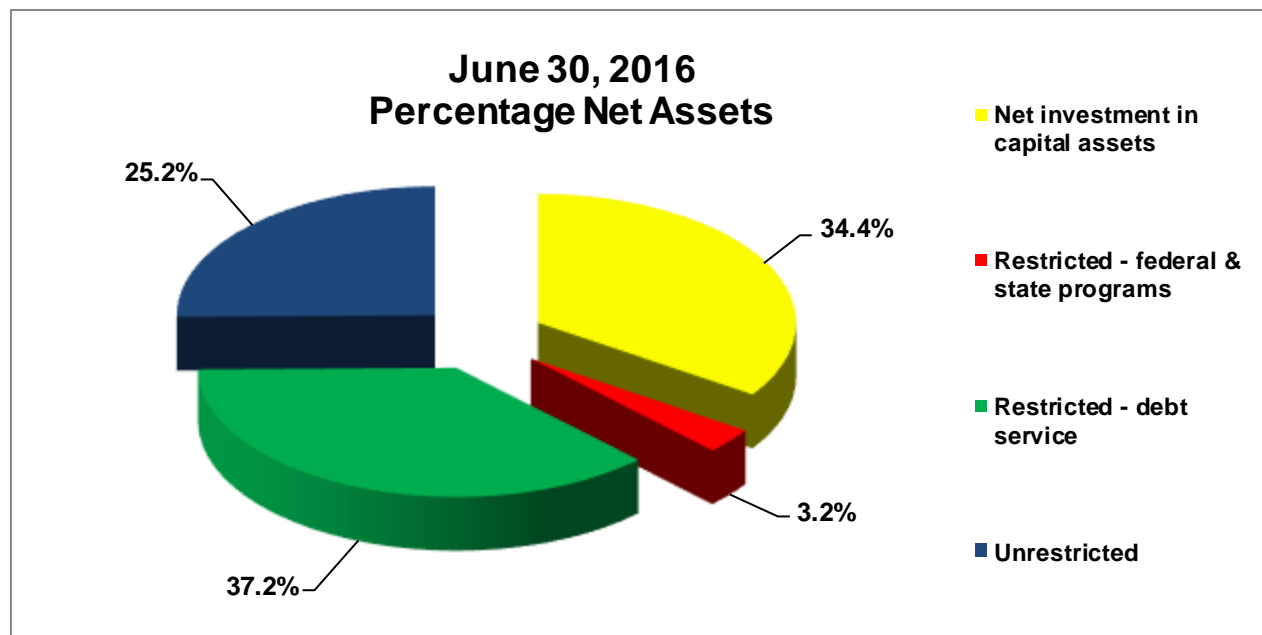
Government-wide Financial Analysis

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 \$ 68,097,655 as of June 30, 2016. Net position of the District's governmental activities increased from \$ 62,338,125 to \$ 68,097,655.

The District's Net Position

| | June 30, 2016 | June 30, 2015 |
|-----------------------------------|----------------------|----------------------|
| Current and other assets | \$ 104,225,077 | \$ 117,800,993 |
| Capital assets | <u>321,563,758</u> | <u>312,522,986</u> |
| Total assets | <u>425,788,835</u> | <u>430,323,979</u> |
| Deferred outflows of resources | <u>36,509,653</u> | <u>14,010,931</u> |
| Long-term liabilities outstanding | 365,796,595 | 356,142,804 |
| Other liabilities | <u>22,022,091</u> | <u>22,267,784</u> |
| Total liabilities | <u>387,818,686</u> | <u>378,410,588</u> |
| Deferred inflows of resources | <u>6,382,147</u> | <u>3,586,197</u> |
| Net Position: | | |
| Net investment in capital assets | 23,401,439 | 17,282,340 |
| Restricted | 27,567,257 | 23,587,767 |
| Unrestricted | <u>17,128,959</u> | <u>21,468,018</u> |
| Total net position | <u>\$ 68,097,655</u> | <u>\$ 62,338,125</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016



Investment in capital assets (e.g., land, buildings and improvements, furniture, equipment, and vehicles) less any related debt used to acquire those assets that is still outstanding is \$ 23,401,439. 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 40 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position*, \$ 17,128,959 may be used to meet the District's ongoing obligations. This surplus is not

PEARLAND INDEPENDENT SCHOOL DISTRICT**MANAGEMENT'S DISCUSSION AND ANALYSIS**

JUNE 30, 2016

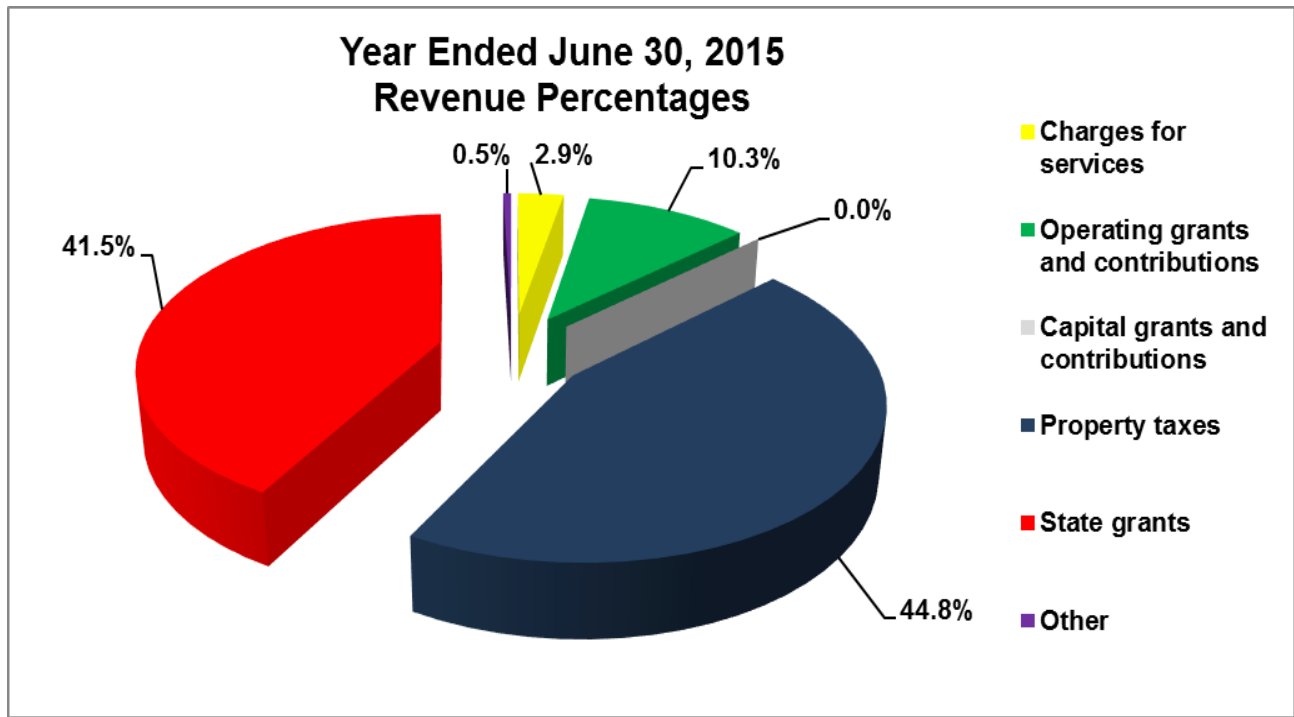
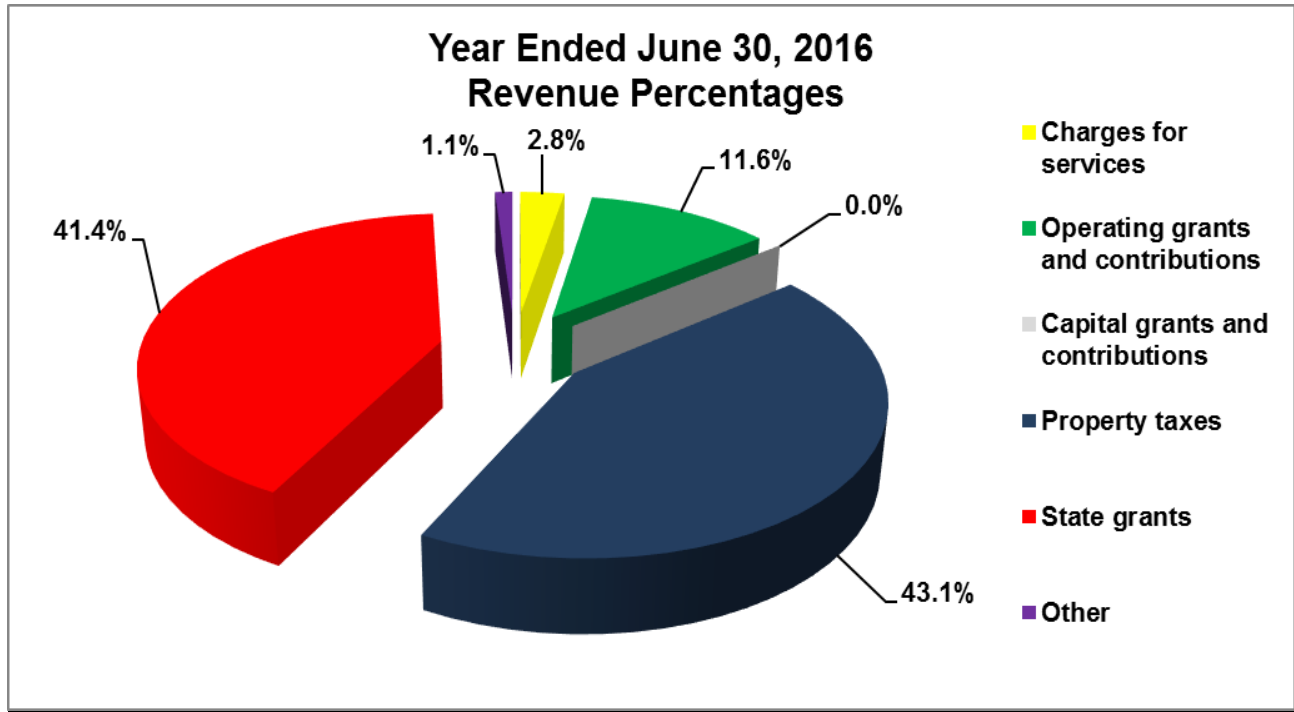
an indication that the District has significant resources available to meet financial obligations next year, but rather the result of having long-term commitments that are less than currently available resources.

Governmental activities. The District's total net position increased by \$ 5,759,530. The total cost of all *governmental activities* this year was \$ 201,022,256. The amount that our taxpayers paid for these activities through property taxes was \$ 89,166,635 or 44% of total cost. The amount of costs that were paid by those who directly benefited from the programs was \$ 5,756,859 or 3%. The costs that were paid by other governments and organizations that subsidized certain programs with grants and contributions or by State equalization funding were \$ 23,995,488 or 12% and \$ 85,600,906 or 43%, respectively.

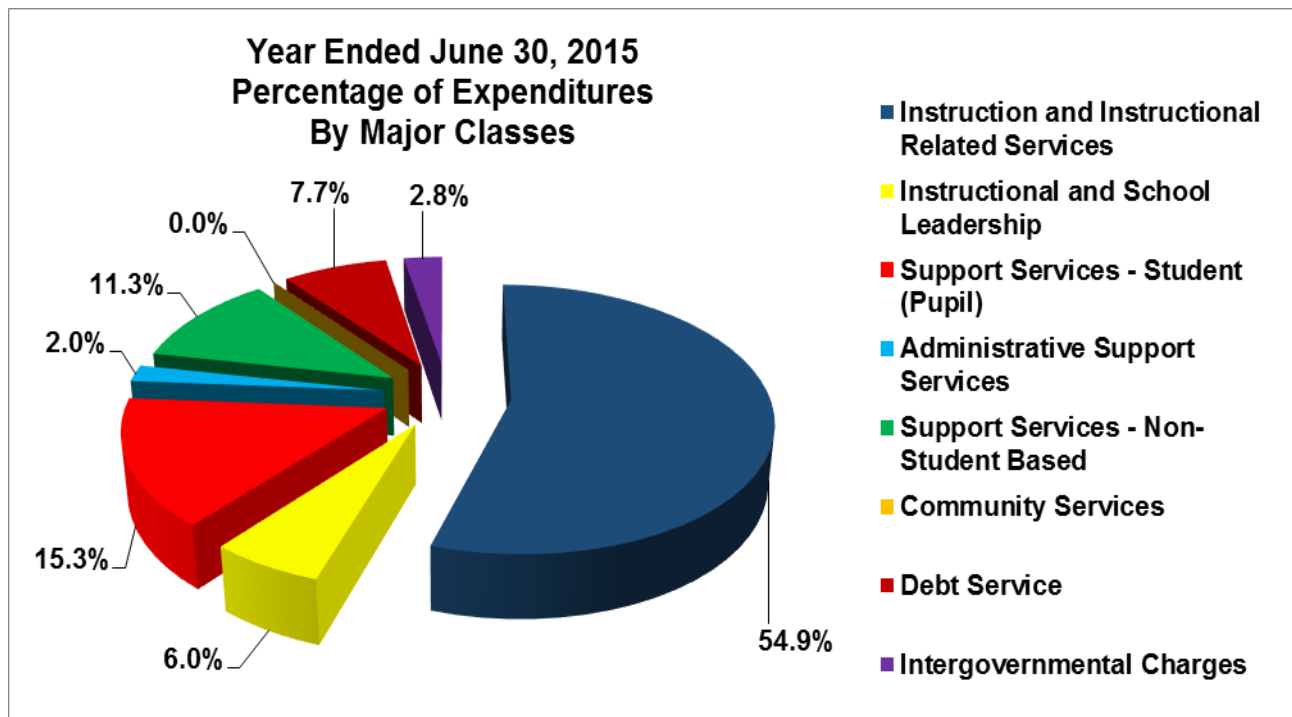
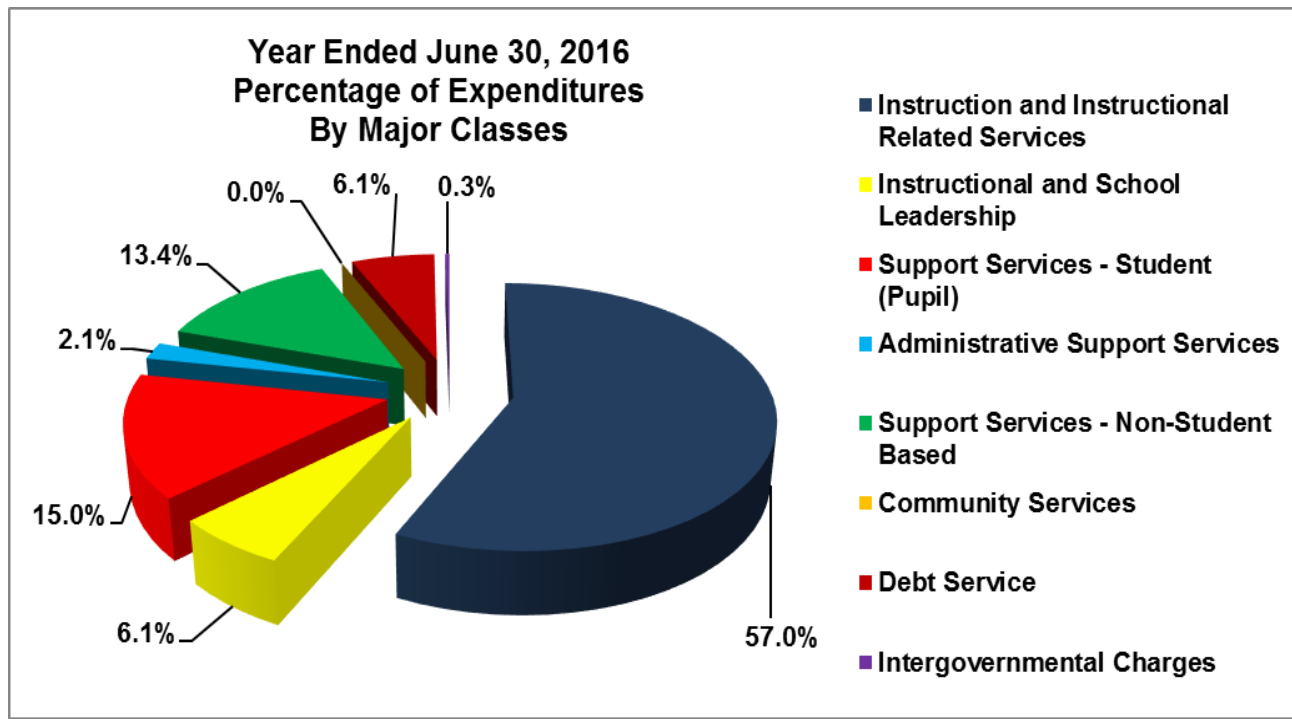
Changes in the District's Net Position

| | Year Ended 6-30-16 | Year Ended 6-30-15 |
|----------------------------------------------------|--------------------------|--------------------------|
| Revenues: | | |
| Program Revenues: | | |
| Charges for services | \$ 5,756,859 | \$ 5,470,259 |
| Operating grants and contributions | 23,923,153 | 19,750,202 |
| Capital grants and contributions | 72,335 | 91,482 |
| General Revenues: | | |
| Property taxes | 89,166,635 | 85,849,528 |
| State grants | 85,600,906 | 79,599,546 |
| Other | <u>2,261,898</u> | <u>950,207</u> |
| Total revenues | <u>206,781,786</u> | <u>191,711,224</u> |
| Expenses: | | |
| Instruction | 108,018,146 | 96,418,084 |
| Instructional resources & media services | 1,892,690 | 1,748,551 |
| Curriculum & staff development | 4,798,357 | 4,420,330 |
| Instructional leadership | 2,117,324 | 2,022,634 |
| School leadership | 10,145,554 | 9,340,019 |
| Guidance, counseling & evaluation services | 6,212,844 | 5,511,460 |
| Social work services | 528,261 | 446,637 |
| Health services | 1,452,554 | 1,336,795 |
| Student transportation | 6,920,831 | 6,768,116 |
| Food services | 9,640,501 | 9,314,602 |
| Extracurricular activities | 5,297,839 | 4,993,563 |
| General administration | 4,148,299 | 3,819,145 |
| Plant maintenance and operations | 20,729,037 | 15,370,044 |
| Security and monitoring services | 1,907,967 | 1,740,251 |
| Data processing services | 4,267,205 | 3,927,450 |
| Community services | 9,337 | 13,829 |
| Debt service-interest and fees on long-term debt | 12,306,612 | 14,211,829 |
| Payments related to shared services arrangements | 11,379 | 4,605,539 |
| Payments to juvenile justice alternative education | 20,000 | 14,500 |
| Other intergovernmental charges | <u>597,519</u> | <u>566,318</u> |
| Total expenses | <u>201,022,256</u> | <u>186,589,696</u> |
| Increase in net position | 5,759,530 | 5,121,528 |
| Beginning net position | <u>62,338,125</u> | <u>57,216,597</u> |
| Ending net position | <u>\$ 68,097,655</u> | <u>\$ 62,338,125</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016



PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016



PEARLAND INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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 \$ 80,621,009, a decrease of \$ 13,606,561. Approximately 34 percent of this total amount (\$ 27,778,841) 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 committed 1) for inventory \$ 204,550, 2) for prepaid items \$ 1,200,831, 3) for grant funds \$ 2,130,677, 4) for capital acquisitions \$ 11,948,424, 5) to pay debt service \$ 16,847,686, 6) committed for construction \$ 7,500,000, and 7) assigned for other purposes \$ 13,010,000.

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$ 27,778,841, while the total fund balance was \$ 49,614,047. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to the total fund expenditures. Unassigned fund balance represents 17 percent of the total general fund expenditures, while total fund balance represents 31 percent of that same amount.

The fund balance of the District's general fund increased by \$ 591,830 or 1 percent during the current fiscal year from last year's total general fund balance of \$ 49,022,217. Revenues increased approximately 6 percent from prior year from \$ 151,324,371 to \$ 160,288,860. Expenditures increased approximately 5 percent from prior year from \$ 151,466,693 to \$ 159,578,454.

The debt service fund has a total fund balance of \$ 16,847,686, 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 \$ 1,861,028 from last year's balance of \$ 14,986,658. This increase is primarily due to the increase in tax collections and state aid received during the year.

The capital projects fund has a total fund balance of \$ 11,948,424, all of which is restricted for the acquisition of capital from capital contractual obligations. The net decrease in fund balance during the period in the capital projects fund was \$ 16,469,694 from last year's balance of \$ 28,418,118. This decrease is due to the expenditures of the 2014 Unlimited School Tax bonds and other construction projects.

Proprietary funds. As mentioned earlier, the District's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position at June 30, 2016 amounted to \$ 411,903. The total increase in net position was \$ 148,483 from last year's balance of \$ 263,420.

PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

General Fund Budgetary Highlights

Over the course of the year, District administration recommended and the Board of Trustee approved three statutorily required revisions to budgeted revenues and appropriations. Revisions to the revenue budget were necessary due to changes in estimates for local and state revenue based on updated information concerning student attendance and tax collections. Revisions to appropriations were necessary due to appropriate staffing adjustments based on actual enrollment, fluctuation in spending needs and various long-term projects which were established based on student growth.

The District's first of three major budget amendments was to appropriate additional funding for additional teaching positions and re-appropriate funding to complete technology and portable building projects which were started but not completed by the end of the June 30, 2015 fiscal year and to address the board's decision to provide a four percent pay increase to all staff whereas the original budget was prepared with a three percent pay increase. The second budget amendment was to shift appropriations for the cost of electricity from function 93-Payments Related to Shared Services Agreements to function 51-Plant Maintenance and Operations as the district elected to move away from an energy cooperative after negotiating a separate multi-year contract with an electric utility provider. The final budget amendment was to appropriate additional funding for ten additional staffing positions, increase in costs of the district's portion of health insurance under the Affordable Care Act, purchase two portable classroom buildings that needed to be installed for the beginning of the 2016-2017 school year and account for additional accrued wages payable to teachers who earned their full salary but only received pay for ten months as of the June 30th fiscal year end.

Realized revenues and other resources exceeded actual expenditures and transfers out by \$ 591,830. After the budget was adjusted for the events described above, the District's actual General Fund revenue and expenditure amounts differ from the final budget as reported in Exhibit G-1 of this report. Actual revenues were more than budgeted revenues which was attributable to higher than anticipated property values and additional state funding from increased student enrollment. Actual expenditures were less than budgeted expenditures which was primarily attributable to less than expected costs in payroll, transportation and facilities maintenance and operations.

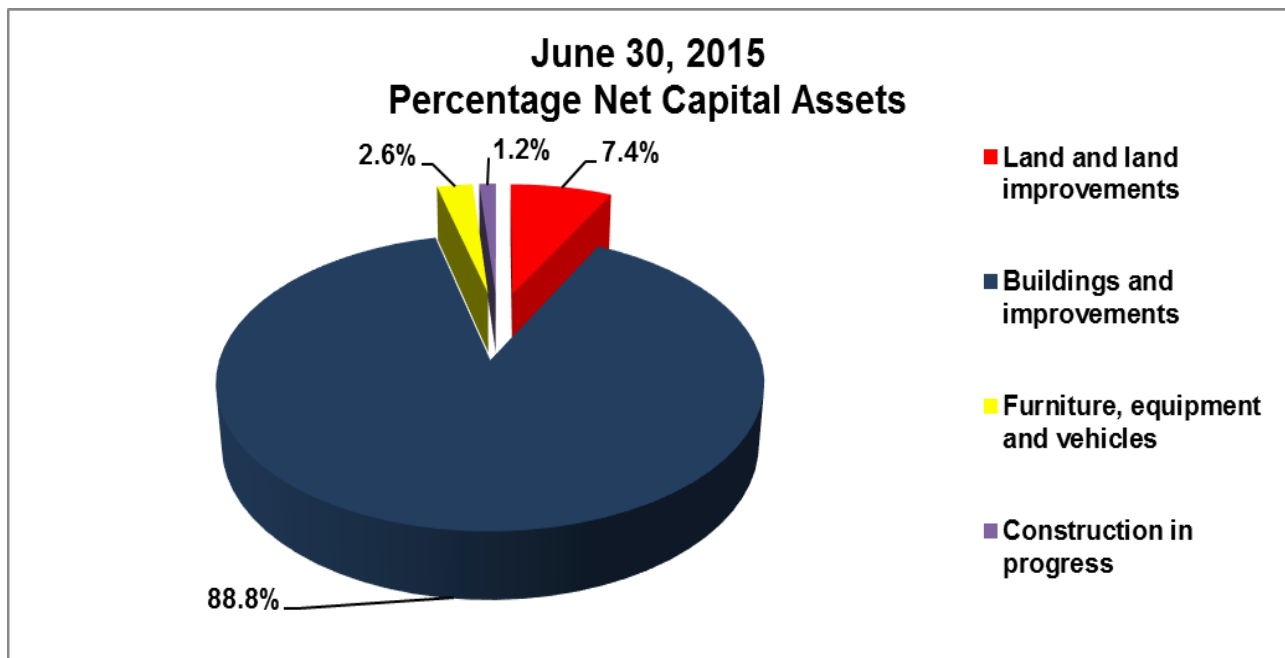
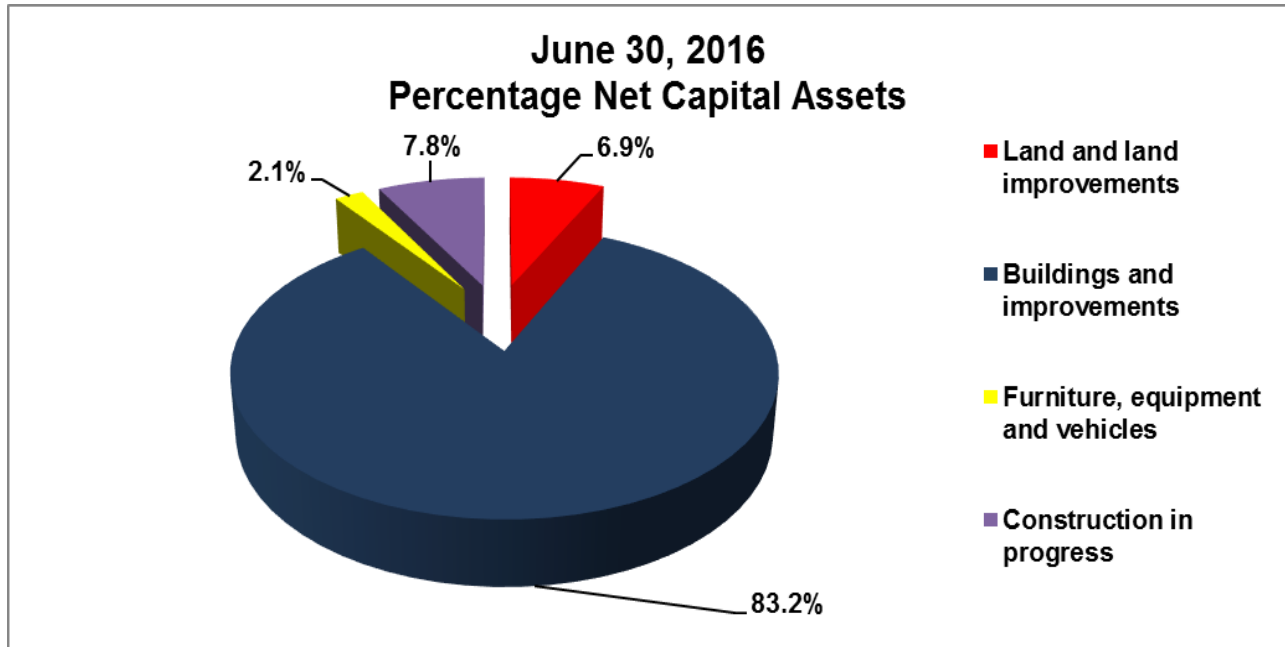
Capital Asset and Debt Administration

Capital Assets. The District's investment in capital assets for its governmental activities as of June 30, 2016 amounts to \$ 321,563,758 (net of accumulated depreciation). This investment in capital assets includes land, buildings and building improvements, furniture, equipment and vehicles, and construction in progress.

| District's Capital Assets (net of depreciation) | | |
|------------------------------------------------------------|--------------------------|--------------------------|
| | <u>June 30, 2016</u> | <u>June 30, 2015</u> |
| Land and land improvements | \$ 22,330,888 | \$ 23,789,998 |
| Buildings and improvements | 267,552,168 | 273,979,863 |
| Furniture, equipment and vehicles | 6,634,745 | 7,140,147 |
| Construction in progress | <u>25,045,957</u> | <u>7,612,978</u> |
| Total at historical cost | <u>\$ 321,563,758</u> | <u>\$ 312,522,986</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

On August 12, 2015, The District sold land (Lot 1 Block 1, Minor Plat Bailey Business Park, Brazoria County, Texas) to the City of Pearland for \$ 2,639,044, and received the net proceeds of \$ 2,625,612 on August 13, 2015. The District's long-range plans did not contemplate an official use for this land. This resulted in a gain of \$ 1,156,502 on the sale of land and is reported as a special item in the Statement of Activities.



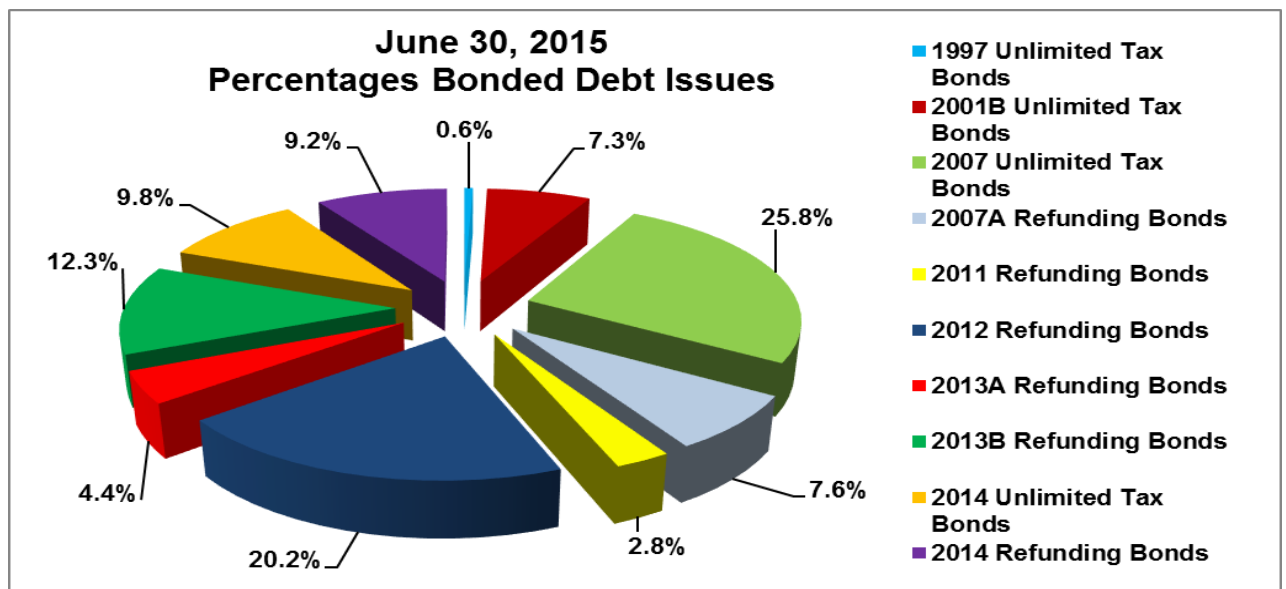
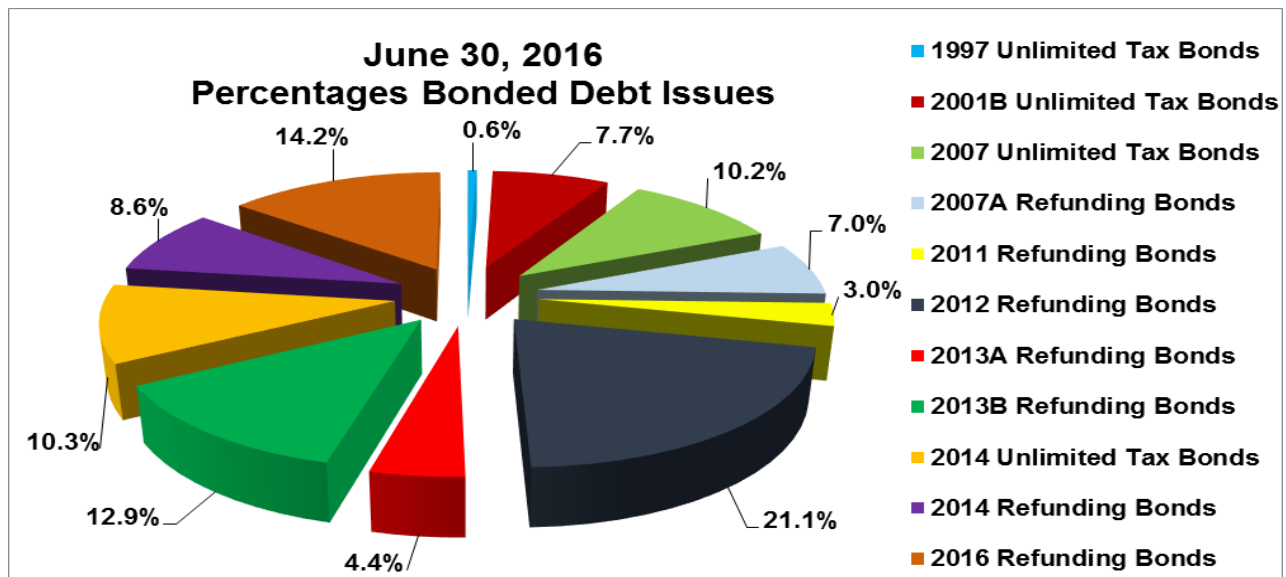
Additional information on the District's capital assets can be found in Note 5 on pages 61 through 62 of this report.

PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

Long-term debt. At June 30, 2016, the District had total long-term debt outstanding of \$ 365,796,595, an increase of \$ 9,653,791 from the previous year. Long-term debt is made up of the following:

District's Long-Term Debt

| | June 30, 2016 | June 30, 2015 |
|-------------------------------------|-----------------------|-----------------------|
| General obligation bonds | \$ 291,934,466 | \$ 311,055,882 |
| Net pension obligation | 37,625,477 | 16,258,097 |
| Components of Long-Term Debt: | | |
| Premium on general obligation bonds | 31,513,346 | 23,807,463 |
| Accrued Interest payable | <u>4,723,306</u> | <u>5,021,362</u> |
| Total long-term debt | <u>\$ 365,796,595</u> | <u>\$ 356,142,804</u> |



PEARLAND INDEPENDENT SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016

Additional information on the District's long-term debt can be found in Note 6 on pages 62 through 65 of this report.

Economic Factors and Next Year's Budgets and Rates

Economic factors may have a significant impact on the District's finances. When approving the budget and adopting the tax rate, the District's management and elected officials consider economic factors such as enrollment growth, property values, state funding, and facility needs.

- Enrollment continues to increase slightly as the District approaches build-out within its boundaries. Next year's enrollment is expected to reach 21,717 students which is an increase of 2.7% over prior year's enrollment of 21,137. The latest demographic study conducted during the summer of 2015 projects the District's enrollment will increase to 22,675 students by the 2024-2025 school year.
- The District's taxable values will increase by 10% next year which is the largest percentage increase since the 2006 tax year. Absent any unforeseen events, the taxable values of the district are expected to hold stable.
- The official budget for the 2016-2017 school year continues to reflect management's conservative approach to budgeting. General fund expenditures are budgeted to increase by approximately \$ 4.9 million from the 2015-2016 final budget due to staffing additions of \$ 2.5 million and salary and benefit increases of \$ 2.4 million. Also included in next year's budget is a transfer of \$ 5 million to the capital projects fund to complete major renovations at two elementary campuses and one high school campus. The district expects to maintain a fund balance in excess of a 90-day reserve at the end of the 2016-2017 fiscal year.
- The school board called for a \$ 220 million bond election to be held on November 8, 2016. With a 10% increase in taxable values, the school board also adopted a Resolution providing for the redemption of a portion of the outstanding Series 2007 Bonds. By redeeming \$ 1.2 million in outstanding bonds, the district is able to maintain the same Debt Service Tax Rate of \$ 0.3756 per \$ 100 valuation as in the previous year. Should the bond election be successful, redeeming bonds this year will minimize the impact of the increase in the tax rate in future years.

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 Office of the Chief Financial Officer, Pearland Independent School District, 1928 N. Main, Pearland, Texas 77581.

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

EXHIBIT A-1
Page 1 of 1

| <u>Data Control Codes</u> | | <u>Governmental Activities</u> |
|-----------------------------------|--------------------------------------------|------------------------------------|
| | ASSETS: | |
| 1110 | Cash and cash equivalents | \$ 74,167,415 |
| 1220 | Taxes receivable - delinquent | 3,180,172 |
| 1230 | Allowance for uncollectible taxes (credit) | (1,475,756) |
| 1240 | Due from other governments | 26,225,463 |
| 1290 | Other receivables (net) | 722,402 |
| 1300 | Inventories | 204,550 |
| 1410 | Deferred expenses | 1,200,831 |
| | Capital Assets: | |
| 1510 | Land and land improvements | 22,330,888 |
| 1520 | Building, furniture and equipment, net | 267,552,168 |
| 1530 | Furniture, equipment and vehicles, net | 6,634,745 |
| 1580 | Construction in progress | <u>25,045,957</u> |
| 1000 | Total assets | <u>425,788,835</u> |
| | DEFERRED OUTFLOWS OF RESOURCES: | |
| 1700 | Deferred outflows of resources | <u>36,509,653</u> |
| | Total deferred outflows of resources | <u>36,509,653</u> |
| | LIABILITIES: | |
| 2110 | Accounts payable | 3,618,026 |
| 2150 | Payroll deductions and withholdings | 1,124,641 |
| 2165 | Accrued liabilities | 17,185,033 |
| 2200 | Accrued expenses | 32,211 |
| 2300 | Unearned revenue | 62,178 |
| | Noncurrent Liabilities: | |
| 2501 | Due within one year | 19,603,268 |
| 2502 | Due in more than one year | <u>346,193,329</u> |
| 2000 | Total liabilities | <u>387,818,686</u> |
| | DEFERRED INFLOWS OF RESOURCES: | |
| 2600 | Deferred inflows of resources | <u>6,382,147</u> |
| | Total deferred inflows of resources | <u>6,382,147</u> |
| | NET POSITION: | |
| 3200 | Net investment in capital assets | 23,401,439 |
| | Restricted For: | |
| 3820 | Federal and state programs | 2,210,852 |
| 3850 | Debt service | 25,356,405 |
| 3900 | Unrestricted | <u>17,128,959</u> |
| 3000 | Total net position | <u>\$ 68,097,655</u> |

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

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 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 | 5 Capital Grants and Contributions | |
| | GOVERNMENTAL ACTIVITIES: | | | | | |
| 11 | Instruction | \$ 108,018,146 | \$ 271,748 | \$ 11,421,157 | \$ 42,741 | \$(96,282,500) |
| 12 | Instructional resources and media services | 1,892,690 | 872 | 68,800 | | (1,823,018) |
| 13 | Curriculum and staff development | 4,798,357 | 114 | 450,187 | | (4,348,056) |
| 21 | Instructional leadership | 2,117,324 | 417 | 204,289 | | (1,912,618) |
| 23 | School leadership | 10,145,554 | 2,276 | 571,133 | | (9,572,145) |
| 31 | Guidance, counseling, and evaluation services | 6,212,844 | 1,176 | 1,062,921 | | (5,148,747) |
| 32 | Social work services | 528,261 | 38 | 1,318,567 | | 790,344 |
| 33 | Health services | 1,452,554 | 455 | 65,961 | | (1,386,138) |
| 34 | Student transportation | 6,920,831 | 3,831 | 235,862 | | (6,681,138) |
| 35 | Food service | 9,640,501 | 5,069,315 | 4,061,705 | 29,594 | (479,887) |
| 36 | Extracurricular activities | 5,297,839 | 396,299 | 166,820 | | (4,734,720) |
| 41 | General administration | 4,148,299 | 721 | 155,352 | | (3,992,226) |
| 51 | Plant maintenance and operations | 20,729,037 | 9,445 | 428,768 | | (20,290,824) |
| 52 | Security and monitoring services | 1,907,967 | | 3,478 | | (1,904,489) |
| 53 | Data processing services | 4,267,205 | 152 | 84,728 | | (4,182,325) |
| 61 | Community services | 9,337 | | 4,578 | | (4,759) |
| 72 | Interest on long-term debt | 11,868,707 | | 3,618,847 | | (8,249,860) |
| 73 | Bond issuance costs and fees | 437,905 | | | | (437,905) |
| 93 | Payments related to shared services arrangements | 11,379 | | | | (11,379) |
| 95 | Payments to juvenile justice alternative education programs | 20,000 | | | | (20,000) |
| 99 | Other intergovernmental charges | 597,519 | | | | (597,519) |
| TG | Total governmental activities | <u>\$ 201,022,256</u> | <u>\$ 5,756,859</u> | <u>\$ 23,923,153</u> | <u>\$ 72,335</u> | <u>(171,269,909)</u> |
| | General Revenues: | | | | | |
| | Taxes: | | | | | |
| MT | Property taxes, levied for general purposes | | | | | 65,527,661 |
| DT | Property taxes, levied for debt service | | | | | 23,638,974 |
| SF | State aid-formula grants | | | | | 85,600,906 |
| GC | Grants and contributions not restricted to specific programs | | | | | 143,358 |
| IE | Investment earnings | | | | | 171,783 |
| MI | Miscellaneous | | | | | 790,255 |
| S1 | Special item - gain on sale of land | | | | | <u>1,156,502</u> |
| TG | Total general revenues, special items, and transfers | | | | | <u>177,029,439</u> |
| CN | Change in net position | | | | | 5,759,530 |
| NB | Net position – beginning | | | | | <u>62,338,125</u> |
| NE | Net position – ending | | | | | <u>\$ 68,097,655</u> |

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

PEARLAND INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2016

EXHIBIT C-1
Page 1 of 1

| Data Control Codes | 10 General Fund | 50 Debt Service Fund | 60 Capital Projects Fund | Other Governmental Funds | 98 Total Governmental Funds | |
|----------------------------------------------------------------|---------------------------------------------------------------------|-------------------------|-----------------------------|--------------------------|--------------------------------|----------------|
| ASSETS AND DEFERRED OUTFLOW OF RESOURCES: | | | | | | |
| Assets: | | | | | | |
| 1110 | Cash and cash equivalents | \$ 40,236,858 | \$ 16,564,090 | \$ 14,453,365 | \$ 2,571,956 | \$ 73,826,269 |
| 1220 | Taxes receivable – delinquent | 2,378,659 | 801,513 | | | 3,180,172 |
| 1230 | Allowance for uncollectible taxes (credit) | (1,126,138) | (349,618) | | | (1,475,756) |
| 1240 | Receivables from other governments | 25,424,861 | 215 | 800,387 | | 26,225,463 |
| 1260 | Due from other funds | 314,182 | | | | 314,182 |
| 1290 | Other receivables | 560,023 | 161,823 | 556 | | 722,402 |
| 1300 | Inventories | 124,375 | | 80,175 | | 204,550 |
| 1410 | Prepaid items | 1,200,831 | | | | 1,200,831 |
| 1000 | Total assets | 69,113,651 | 17,178,023 | 14,453,365 | 3,453,074 | 104,198,113 |
| Deferred Outflow of Resources: | | | | | | |
| 1700 | Deferred outflows of resources | | | | | -0- |
| | Total deferred outflows of resources | -0- | -0- | -0- | -0- | -0- |
| 1000A | Total assets and deferred outflows of resources | \$ 69,113,651 | \$ 17,178,023 | \$ 14,453,365 | \$ 3,453,074 | \$ 104,198,113 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES: | | | | | | |
| Liabilities: | | | | | | |
| 2110 | Accounts payable | \$ 1,102,778 | \$ | \$ 2,504,941 | \$ 10,307 | \$ 3,618,026 |
| 2150 | Payroll deductions and withholdings | 1,124,641 | | | | 1,124,641 |
| 2160 | Accrued wages payable | 16,278,852 | | | 906,181 | 17,185,033 |
| 2170 | Due to other funds | 102,968 | | | 314,182 | 417,150 |
| 2300 | Unearned revenue | 30,460 | 20,166 | | 11,552 | 62,178 |
| 2000 | Total liabilities | 18,639,699 | 20,166 | 2,504,941 | 1,242,222 | 22,407,028 |
| Deferred Inflow of Resources: | | | | | | |
| | Deferred inflows of resources - property taxes | 859,905 | 310,171 | | | 1,170,076 |
| 2600 | Total deferred inflows of resources | 859,905 | 310,171 | -0- | -0- | 1,170,076 |
| Fund Balances: | | | | | | |
| 3410 | Non-spendable - inventories | 124,375 | | | 80,175 | 204,550 |
| 3430 | Non-spendable - prepaid items | 1,200,831 | | | | 1,200,831 |
| 3450 | Restricted - grant funds | | | | 2,130,677 | 2,130,677 |
| 3470 | Restricted - capital acquisitions and contractual obligations | | | 11,948,424 | | 11,948,424 |
| 3480 | Restricted - debt service | | 16,847,686 | | | 16,847,686 |
| 3510 | Committed - construction | 7,500,000 | | | | 7,500,000 |
| 3590 | Assigned - other | 13,010,000 | | | | 13,010,000 |
| 3600 | Unassigned | 27,778,841 | | | | 27,778,841 |
| 3000 | Total fund balances | 49,614,047 | 16,847,686 | 11,948,424 | 2,210,852 | 80,621,009 |
| 4000 | Total liabilities, deferred inflows of resources, and fund balances | \$ 69,113,651 | \$ 17,178,023 | \$ 14,453,365 | \$ 3,453,074 | \$ 104,198,113 |

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

PEARLAND INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE GOVERNMENTAL ACTIVITIES STATEMENT OF NET POSITION
JUNE 30, 2016

EXHIBIT C-1R
Page 1 of 1

Total fund balances – governmental funds balance sheet (C-1) \$ 80,621,009

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 \$ 462,957,417 in assets less \$ 141,393,659 in accumulated depreciation. 321,563,758

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 \$ 859,905 and \$ 310,171, respectively. 1,170,076

The assets and liabilities of internal service funds are included in governmental activities in the statement of net position. 411,903

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 bonds or the refunded bonds, whichever is shorter. This amount is bond refunding costs of \$ 17,093,873 less accumulated costs of \$ 4,172,019, and is reported as a deferred outflow of resources. 12,921,854

Pension deferred outflows of resources of \$ 20,989,702 less amortization of \$ 364,898 and pension deferred inflows of resources of \$ 7,769,349 less amortization of \$ 1,387,202. 14,242,657

Other long-term assets are not available to pay for current-period expenditures and therefore are deferred in the funds. This is the pension contributions made from the measurement date to June 30, 2016. These contributions amounted to \$ 2,962,995 and are reported as a deferred outflow of resources. 2,962,995

Premium on the issuance of bonds provide current financial resources to governmental funds but the proceeds increase long-term liabilities in the statement of net position. This amount is amortized over the life of the bonds. Net premium on the issuance of bonds were \$ 31,513,347 (premium on sale of bonds of \$ 38,698,731 less amortization costs of \$ 7,185,384). (31,513,347)

Net pension obligation (37,625,477)

Payables for bond principal are not reported in the funds. (291,934,467)

Payables for bond interest are not reported in the funds. (4,723,306)

Net position of governmental activities – statement of net position (A-1) \$ 68,097,655

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

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PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

EXHIBIT C-2
Page 1 of 2

| Data Control Codes | Functions/Programs | 10 General Fund | 50 Debt Service Fund | 60 Capital Projects Fund | Other Governmental Funds | 98 Total Governmental Funds |
|--------------------|-------------------------------------------------------------|--------------------|-------------------------|-----------------------------|--------------------------|--------------------------------|
| REVENUES: | | | | | | |
| 5700 | Local and intermediate sources | \$ 67,097,831 | \$ 23,644,106 | \$ 28,775 | \$ 5,070,268 | \$ 95,840,980 |
| 5800 | State program revenues | 91,703,004 | 3,618,847 | | 4,051,062 | 99,372,913 |
| 5900 | Federal program revenues | 1,488,025 | | | 8,731,072 | 10,219,097 |
| 5020 | Total revenues | <u>160,288,860</u> | <u>27,262,953</u> | <u>28,775</u> | <u>17,852,402</u> | <u>205,432,990</u> |
| EXPENDITURES: | | | | | | |
| Current: | | | | | | |
| 0011 | Instruction | 92,725,179 | | | 7,288,360 | 100,013,539 |
| 0012 | Instructional resources and media services | 1,566,006 | | | 26,488 | 1,592,494 |
| 0013 | Curriculum and staff development | 4,431,773 | | | 283,767 | 4,715,540 |
| 0021 | Instructional leadership | 1,880,881 | | | 116,401 | 1,997,282 |
| 0023 | School leadership | 9,847,842 | | | 94,307 | 9,942,149 |
| 0031 | Guidance, counseling, and evaluation services | 5,296,331 | | | 805,012 | 6,101,343 |
| 0032 | Social work services | 490,739 | | | 12,746 | 503,485 |
| 0033 | Health services | 1,417,082 | | | | 1,417,082 |
| 0034 | Student transportation | 6,497,794 | | | | 6,497,794 |
| 0035 | Food Service | | | | 8,829,449 | 8,829,449 |
| 0036 | Extracurricular activities | 3,948,679 | | | | 3,948,679 |
| 0041 | General administration | 3,977,831 | | | | 3,977,831 |
| 0051 | Plant maintenance and operations | 21,036,965 | | 8,218 | | 21,045,183 |
| 0052 | Security and monitoring services | 1,808,689 | | | 345 | 1,809,034 |
| 0053 | Data processing services | 3,776,107 | | | 6,500 | 3,782,607 |
| 0061 | Community services | 4,759 | | | 4,578 | 9,337 |
| 0071 | Principal on long-term debt | | 11,485,000 | | | 11,485,000 |
| 0072 | Interest on long-term debt | | 13,684,091 | | | 13,684,091 |
| 0073 | Bond issuance costs and fees | | 437,905 | | | 437,905 |
| 0080 | Capital outlay | 242,899 | | 19,090,037 | | 19,332,936 |
| 0093 | Payments related to shared services arrangements | 11,379 | | | | 11,379 |
| 0095 | Payments to Juvenile Justice Alternative Education Programs | 20,000 | | | | 20,000 |
| 0099 | Other intergovernmental charges | <u>597,519</u> | | | | <u>597,519</u> |
| 6030 | Total expenditures | <u>159,578,454</u> | <u>25,606,996</u> | <u>19,098,255</u> | <u>17,467,953</u> | <u>221,751,658</u> |
| 1100 | Excess (deficiency) of revenues over expenditures | <u>710,406</u> | <u>1,655,957</u> | <u>(19,069,480)</u> | <u>384,449</u> | <u>(16,318,668)</u> |

(continued)

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS - Continued
YEAR ENDED JUNE 30, 2016

EXHIBIT C-2
Page 2 of 2

| Data Control Codes | Functions/Programs | 10 General Fund | 50 Debt Service Fund | 60 Capital Projects Fund | Other Governmental Funds | 98 Total Governmental Funds |
|--------------------------|------------------------------------------|-----------------------|-------------------------------|-----------------------------------|--------------------------------|--------------------------------------|
| | OTHER FINANCING SOURCES (USES): | | | | | |
| 7911 | Proceeds from bonds | \$ | \$ 41,335,000 | \$ | \$ | \$ 41,335,000 |
| 7912 | Sale of real and personal property | 10,480 | | | | 10,480 |
| 7915 | Transfers in | | | | 25,826 | 25,826 |
| 7916 | Premium on issuance of bonds | | 9,921,717 | | | 9,921,717 |
| 8911 | Transfers out | (129,056) | | (25,826) | | (154,882) |
| 8949 | Payment to escrow agent | | (51,051,646) | | | (51,051,646) |
| | Total other financing sources and (uses) | (118,576) | 205,071 | (25,826) | 25,826 | 86,495 |
| | SPECIAL ITEMS: | | | | | |
| 7916 | Special item – sale of land | | | 2,625,612 | | 2,625,612 |
| 1200 | Net change in fund balances | 591,830 | 1,861,028 | (16,469,694) | 410,275 | (13,606,561) |
| 0100 | Fund balances – beginning | 49,022,217 | 14,986,658 | 28,418,118 | 1,800,577 | 94,227,570 |
| 3000 | Fund balances – ending | \$ 49,614,047 | \$ 16,847,686 | \$ 11,948,424 | \$ 2,210,852 | \$ 80,621,009 |

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

PEARLAND 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 JUNE 30, 2016**EXHIBIT C-2R
Page 1 of 2

Net change in fund balances – total governmental funds (from C-2) \$(13,606,561)

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 outlays \$ 21,197,228 was more than depreciation of \$ 10,676,096 in the current period. | 10,521,132 |
| Contributions of capital assets are not reported in the funds, however, contributions of capital assets are reported as capital contributions in the governmental activities statement of activities. During the current year, \$ 27,741 in equipment was contributed to and accepted by the District. | 27,741 |
| 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. Deferred property tax revenues for the general fund and the debt service fund amounted to \$ 99,452 and \$ 28,405, respectively. | 127,857 |
| Accretion of capital appreciation bonds increases debt service interest expense in the governmental activities statement of activities but is not reported in governmental funds. | (108,585) |
| Pension deferred outflows of resources of \$ 19,681,470 and pension deferred inflows of resources of \$ 2,795,949. | 16,885,521 |
| 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 \$ 8,066,706 (premium on the sale of bonds of \$ 9,921,717 less amortization of \$ 1,855,011). | (8,066,706) |
| 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 assets. Long-term proceeds in the governmental fund were \$ 41,335,000 for bonds, less \$ 49,080,000 of bonds refunded. | 7,745,000 |
| Deferred refunding cost is another use in the governmental funds, but the costs increase long-term assets in the statement of net position. This amount is amortized over the life of the refunding bonds or the refunded bonds, whichever is shorter. The net cost of refunding of \$ 1,971,646 less the current amortization of refunded bond costs of \$ 229,098. | 1,742,548 |
| Governmental funds report pension payments as expenditures. However, in the governmental activities statement of activities, the pension cost is calculated by actuary and involves multiple factors. The amount of pension expense reported was \$ 19,931,855 more than the amount reported in the funds. | (19,931,855) |
| 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 \$ 11,485,000. | 11,485,000 |
| 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 \$ 298,056. | 298,056 |
| 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 basis in assets retired in the amount of \$ 1,508,101 (\$ 3,235,244 in asset cost less accumulated depreciation of \$ 1,727,143). | (1,508,101) |

(continued)

PEARLAND INDEPENDENT SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO
GOVERNMENTAL ACTIVITIES STATEMENT OF ACTIVITIES - Continued
YEAR ENDED JUNE 30, 2016**

EXHIBIT C-2R
Page 2 of 2

Internal service funds are used by management to charge the costs of certain activities, such as insurance and telecommunications to individual funds. The net revenue (expense) of the internal service funds is reported in the governmental activities statement of activities (see D-2)

\$ 148,483

Change in net position of governmental activities (see B-1)

\$ 5,759,530

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

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2016

EXHIBIT D-1
Page 1 of 1

| <u>Data Control Codes</u> | | <u>Governmental Activities Internal Service Fund - Workers Compensation</u> |
|-----------------------------------|--------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| | ASSETS: | |
| | Current Assets: | |
| 1110 | Cash and cash equivalents | \$ 341,146 |
| 1260 | Due from other funds | <u>102,968</u> |
| | Total assets | <u>444,114</u> |
| | DEFERRED OUTFLOWS OF RESOURCES: | |
| 1700 | Deferred outflows | <u></u> |
| | Total deferred outflows of resources | <u>-0-</u> |
| | Total assets and deferred outflows of resources | <u>\$ 444,114</u> |
| | LIABILITIES: | |
| | Current Liabilities: | |
| 2165 | Accrued expenses payable | \$ <u>32,211</u> |
| | Total liabilities | <u>32,211</u> |
| | DEFERRED INFLOWS OF RESOURCES: | |
| 2600 | Deferred inflows of resources | <u></u> |
| | Total deferred inflows of resources | <u>-0-</u> |
| | NET POSITION: | |
| 3900 | Unrestricted net position | <u>411,903</u> |
| | Total net position | <u>411,903</u> |
| | Total liabilities, deferred inflows of resources, and net position | <u>\$ 411,114</u> |

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

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

EXHIBIT D-2
Page 1 of 1

| | |
|-------------------------------------------|-------------------------------------------------------------------------------------|
| | Governmental Activities Internal Service Fund – Workers Compensation |
| Operating Revenues: | |
| Charges for services | \$ <u>36,187</u> |
| Total operating revenues | <u>36,187</u> |
| Operating Expenses: | |
| Insurance claims and expenses | <u>17,269</u> |
| Total operating expenses | <u>17,269</u> |
| Operating income | <u>18,918</u> |
| Nonoperating Revenues (Expenses): | |
| Interest and investment revenue | <u>509</u> |
| Total nonoperating revenues (expenses) | <u>509</u> |
| Income before contributions and transfers | <u>19,427</u> |
| Contributions and transfers | <u>129,056</u> |
| Total contributions and transfers | <u>129,056</u> |
| Changes in net position | 148,483 |
| Net position – beginning | <u>263,420</u> |
| Net position – ending | \$ <u><u>411,903</u></u> |

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

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOW
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2016

EXHIBIT D-3
Page 1 of 1

| | |
|---------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------|
| | Governmental Activities Internal Service Fund – Workers <u>Compensation</u> |
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Receipts from insurance | \$ 36,187 |
| Payments to other funds | (102,968) |
| Claims paid | <u>(40,665)</u> |
| Net cash used by operating activities | <u>(107,446)</u> |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | |
| Operating transfers from other funds | <u>129,056</u> |
| Net cash provided by noncapital financing activities | <u>129,056</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | |
| Net cash provided by capital and related financing activities | <u>-0-</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Interest and dividends | <u>509</u> |
| Net cash provided by investing activities | <u>509</u> |
| Net increase in cash and cash equivalents | 22,119 |
| Balances – beginning of year | <u>319,027</u> |
| Balances – end of year | \$ <u><u>341,146</u></u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | |
| Operating income | \$ 18,918 |
| Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities: | |
| Changes in Assets and Liabilities: | |
| Due from other funds | (102,968) |
| Accrued expenses payable | <u>(23,396)</u> |
| Net cash used by operating activities | \$(<u><u>107,446</u></u>) |

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

PEARLAND INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

EXHIBIT E-1
Page 1 of 1

| | <u>Agency Funds</u> |
|-------------------------------|-------------------------|
| ASSETS: | |
| Cash and cash equivalents | \$ 3,332,212 |
| Receivables: | |
| Other receivables | <u>9,058</u> |
| Total assets | <u>\$ 3,341,270</u> |
| LIABILITIES: | |
| Amounts due to student groups | \$ <u>3,341,270</u> |
| Total liabilities | <u>\$ 3,341,270</u> |

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

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PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

INDEX

| Note | Page |
|--------------------------------------------------------------------------------------------------------------------|------|
| 1. Summary of Significant Accounting Policies | 42 |
| 2. Deposits, Investments and Derivatives | 54 |
| 3. Receivables, Uncollectible Accounts, Deferred Outflows and Inflows of Resources, and Unearned Revenues | 58 |
| 4. Interfund Receivables, Payables and Transfers..... | 60 |
| 5. Capital Assets..... | 61 |
| 6. Long-Term Debt | 62 |
| 7. Leases | 66 |
| 8. Defined Benefit Pension Plans | 66 |
| 9. General Fund Federal Source Revenues..... | 72 |
| 10. Local and Intermediate Revenues..... | 73 |
| 11. Risk Management | 73 |
| 12. Self-Insured Workers' Compensation..... | 73 |
| 13. Litigation and Contingencies | 74 |
| 14. Joint Ventured-Shared Service Arrangements..... | 74 |
| 15. Evaluation of Subsequent Events..... | 75 |

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Pearland Independent School District (the "District") is an independent public educational agency operating under applicable laws and regulations of the State of Texas. The District is autonomously governed by a seven-member Board of Trustees elected by the District's residents.

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.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 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". The District receives support from various PTO, booster clubs and foundation organizations. None of these organizations meet the criteria specified by GASB 61 to be included in the District's financial statements. Therefore, there are no component units included within the reporting entity.

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 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*.

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

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Government-Wide and Fund Financial Statements (Continued)

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported 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 proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as 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. 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. 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.

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.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first and the 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 *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, state aid, and interest earnings. Expenditures include all costs associated with related debt service.

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

The District reports the following proprietary funds:

The *internal service fund* accounts for the District's self-funded workers' compensation program. The revenues of this fund are received from the general funds, and the expenses are comprised of claims paid on behalf of the District. The general fund is contingently liable for liabilities of this fund. See Note 12 for additional discussion of the District's self-insurance workers' compensation plan.

The workers' compensation program provides for incurred but not reported costs for workers' compensation claims through the establishment of undiscounted liability accounts and net position. As of June 30, 2016, undiscounted liabilities totaled \$ 32,211 and net position of the workers' compensation program were \$ 411,903. The District chose to switch to a fully insured workers' compensation program with Texas Mutual Insurance Company as of July 1, 2013. The above liability is from claims before July 1, 2014 from the self-insured program which have not been closed out as of June 30, 2016.

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

Additionally, the District reports the following fiduciary funds:

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

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 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 of 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 \$ 5,867,919,610. 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 June 30, 2016, to finance general fund operations and the payment of principal and interest on general obligation long-term debt were \$ 1.0400 and \$ 0.3756 per \$ 100 valuation, respectively, for a total of \$ 1.4156 per \$ 100 valuation.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property Taxes (Continued)

Current tax collections for the year ended June 30, 2016 were 98.63% 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 June 30, 2016, property taxes receivable, net of estimated uncollectible taxes, totaled \$ 1,252,521 and \$ 451,895 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 deferred revenue when received in the governmental funds. When requisitioned, inventory and deferred revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.

Capital Assets and Depreciation

Capital assets, which include land, 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.

Buildings and building 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> |
|-------------------------------------|--------------|
| Buildings and building improvements | 5-50 |
| Furniture and equipment | 5-10 |
| Vehicles | 5-10 |

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 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 same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying basic financial statements. The District's sick leave policy allows employees to carryover unused sick days to subsequent years. Any employee who retires from the District through the Teacher Retirement System of Texas shall at the end of the last year of employment receive a lump-sum payment of unused sick leave up to a maximum of one hundred days determined by formula (number of unused local sick leave multiplied by final year contract salary divided by twice the number of days on contract multiplied by number of years in district divided by twenty). If the calculated lump-sum payment is less than \$ 100, no payment will be made. A summary of changes in the accumulated sick leave liability follows:

A summary of changes in the accumulated sick leave liability follows:

| | <u>2016</u> | <u>2015</u> |
|------------------------|---------------------|---------------------|
| Balance, July 1, | \$ 1,338,678 | \$ 1,121,871 |
| Additions – net unused | 209,770 | 369,269 |
| Deductions – payments | <u>(104,885)</u> | <u>(152,462)</u> |
| Balance, June 30, | <u>\$ 1,443,563</u> | <u>\$ 1,338,678</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences (Continued)

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 (\$ 1,404,120) and the Food Service - Special Revenue Fund (\$ 39,443).

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities or proprietary fund type statement of net position. Bond premiums and discounts are unearned and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as or expenses in the current period. Net pension obligation is reported as long term liabilities and pension expense, 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 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 June 20 of the preceding fiscal year for the subsequent fiscal year beginning July 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).

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Budgetary Data (Continued)

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 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 June 30, 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 April 12, 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.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrance Accounting (Continued)

At June 30, 2016, certain amounts which were previously identified with specific purposes have been encumbered in the government funds. Significant encumbrances included in governmental fund balances are as follows:

| | General Fund | Special Revenue Funds | Capital Projects Fund | Total |
|---------------|-------------------|-----------------------------|-----------------------------|-------------------|
| Encumbrances: | | | | |
| Restricted | \$ | \$ 33,137 | \$ 409,948 | \$ 443,085 |
| Unassigned | <u>237,733</u> | <u></u> | <u></u> | <u>237,733</u> |
| | <u>\$ 237,733</u> | <u>\$ 33,137</u> | <u>\$ 409,948</u> | <u>\$ 680,818</u> |

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 Chief Financial Officer. 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:

Nonspendable 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.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balances(Continued)

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.

As of June 30, 2016, non-spendable fund balances includes \$ 124,375 for inventories, and \$ 1,200,831 for prepaid items in the General fund. The Food Service special revenue fund non-spendable fund balance includes \$ 80,175 for inventories. Restricted fund balances included \$ 16,847,686 for Debt Service fund, \$ 11,948,424 for capital acquisitions, \$ 2,067,313 for the Food Service (special revenue fund), \$ 8,994 for AP/IB Campus Awards (special revenue fund), and \$ 54,370 for Instructional Materials Allocation (special revenue fund). Committed fund balance includes \$ 7,500,000 for construction in the General fund. Assigned fund balance includes \$ 13,010,000 for other purposes in the General fund. Unassigned fund balance includes \$ 27,778,841 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:

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Pronouncements (Continued)

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

GASB No. 71, "Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB No. 68", was issued November 2013. The statement was implemented and did have an impact 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 have an impact on the District's financial statements. This statement is effective for periods beginning after June 15, 2015.

GASB No. 73, "Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB 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 impact 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.

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2016****NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)****New Pronouncements (Continued)**

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.

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 a 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 a year or more.

See Note 1 for additional Governmental Accounting Standards Board Statement No. 31 disclosures.

Cash and cash equivalents as reported on the statement of net position at June 30, 2016 are as follows:

| | Governmental Funds | Proprietary (Internal Service) Funds | Fiduciary Funds | Total |
|--------------------------------------|-----------------------|-----------------------------------------------|---------------------|---------------------|
| Cash and Cash Equivalents: | | | | |
| Cash (petty cash accounts) | \$ 20,087 | \$ | \$ | \$ 20,087 |
| Financial Institution Deposits: | | | | |
| Demand deposits | 31,889,748 | 307,082 | 3,237,030 | 35,433,860 |
| Local Government Investment Pool: | | | | |
| Texpool | <u>41,916,434</u> | <u>34,064</u> | <u>95,182</u> | <u>42,045,680</u> |
| | <u>\$73,826,269</u> | <u>\$ 341,146</u> | <u>\$ 3,332,212</u> | <u>\$77,499,627</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 2. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

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.

At June 30, 2016, in addition to petty cash of \$ 20,087, the carrying amount of the District's cash, savings, and time deposits was \$ 35,433,860. The financial institutions balances were \$ 37,117,420 at June 30, 2016. Bank balances of \$ 250,000 were covered by federal depository insurance, and \$ 36,867,420 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.

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

Depository:

- a. Name of bank: Wells Fargo Bank, Pearland, Texas.
- b. Amount of bond and/or security pledged as of the date of the highest combined balance on deposit was \$ 75,453,773.
- c. Largest cash, savings and time deposit combined account balance amounted to \$ 65,760,463 and occurred on February 10, 2016.
- d. Total amount of FDIC coverage at the time of the largest combined balance was \$ 250,000.

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 an "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

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 2. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)

Investments (Continued)

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.

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 invests in Texpool to provide its liquidity needs. Texpool is a local government investment pool that was 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 is a 2(a)7 like fund, meaning that it is 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 is rated AAAM and must maintain a dollar weighted average maturity not to exceed 60 days, which is the limit.

At June 30, 2015, Texpool had a weighted average maturity of 46 days. Although Texpool portfolio had a weighted average maturity of 46 days, 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.

All of the District's investments are insured, registered, or the District's agent holds the securities in the District's name; therefore, the District is not exposed to custodial credit risk.

The following table includes the portfolio balances of all investment types of the District at June 30, 2016.

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2016****NOTE 2. DEPOSITS, INVESTMENTS AND DERIVATIVES (Continued)****Investments (Continued)**

| | <u>Market Value</u> |
|-----------------------------------|-----------------------------|
| Local Government Investment Pool: | |
| Governmental Funds: | |
| General Fund: | |
| Texpool | \$ 26,011,293 |
| Debt Service Fund: | |
| Texpool | <u>15,905,141</u> |
| Total governmental funds | 41,916,434 |
| Internal Service Funds: | |
| Worker's Compensation: | |
| Texpool | 34,064 |
| Agency Funds: | |
| Texpool | <u>95,182</u> |
| Total investments | <u><u>\$ 42,045,680</u></u> |

Credit Risk – As of June 30, 2016, the local government investment pool (which represents 100% of the unrestricted portfolio) are rated AAAM by Standard and Poor's.

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.

Fair Value – The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The District has recurring fair value measurements as of June 30, 2016 for its Texpool investment of \$ 42,045,680, valued using quoted market prices (Level 1 inputs).

Derivatives

Interest in derivative products has increased in recent years. Derivatives are investment products, which may be a security or contract, which derives its value 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 June 30, 2016, and holds no direct investments in derivatives at June 30, 2016.

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

YEAR ENDED JUNE 30, 2016

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

Receivables as of June 30, 2016, for the government's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

| | General Fund | Debt Service Fund | Other Governmental Funds | Total |
|---------------------------------------|---------------------|-------------------------|--------------------------------|---------------------|
| Receivables: | | | | |
| Property taxes | \$ 2,378,659 | \$ 801,513 | \$ | \$ 3,180,172 |
| Receivables from other governments | 25,424,861 | 215 | 800,387 | 26,225,463 |
| Other receivables | <u>560,023</u> | <u>161,823</u> | <u>556</u> | <u>722,402</u> |
| | 28,363,543 | 963,551 | 800,943 | 30,128,037 |
| Less: allowance for uncollectibles | <u>1,126,138</u> | <u>349,618</u> | | <u>1,475,756</u> |
| Net total receivables | <u>\$27,237,405</u> | <u>\$ 613,933</u> | <u>\$ 800,943</u> | <u>\$28,652,281</u> |

Receivables/Payables from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to, partially or fully, finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. 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 June 30, 2016 are summarized below.

| Fund | State Entitlements | Federal Grants | State Grants and Other | Total |
|---------------------------|-----------------------|-------------------|---------------------------|---------------------|
| Major Governmental Funds: | | | | |
| General fund | \$ 25,402,297 | \$ 22,526 | \$ 38 | \$ 25,424,861 |
| Debt service fund | 215 | | | 215 |
| Other funds | | 800,387 | | 800,387 |
| Total | <u>\$25,402,512</u> | <u>\$ 822,913</u> | <u>\$ 38</u> | <u>\$26,225,463</u> |

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

YEAR ENDED JUNE 30, 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 June 30, 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) | \$ 859,905 | \$ |
| Delinquent property taxes receivable (debt service fund) | 310,171 | |
| Advance Funding: | | |
| State entitlements and grants | | 31,718 |
| Co-curricular | | 23,310 |
| Other | | 7,150 |
| | <u> </u> | <u> </u> |
| Totals | <u>\$ 1,170,076</u> | <u>\$ 62,178</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 June 30, 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 June 30, 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 pension deferred outflows and inflows – net of amortization | \$ 20,624,804 | \$ 6,382,147 | \$ |
| Pension contributions subsequent to the measurement date | 2,962,995 | | |
| Bond refunding costs net of amortization | 12,921,854 | | |
| Advance funding | | | 62,178 |
| | <u> </u> | <u> </u> | <u> </u> |
| Totals | <u>\$ 36,509,653</u> | <u>\$ 6,382,147</u> | <u>\$ 62,178</u> |

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

YEAR ENDED JUNE 30, 2016

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

Interfund balances at June 30, 2016 consisted of the following individual fund receivables and payables:

| <u>Fund</u> | <u>Receivable</u> | <u>Payable</u> |
|-----------------------------------------------|-------------------|-------------------|
| General Fund: | | |
| Special Revenue Funds: | | |
| McKinney-Vento – Texas Support for | | |
| Homeless Education | \$ 12,947 | \$ |
| ESEA Title I, Part A Improving Basic Programs | 71,803 | |
| IDEA Part B Formula | 133,586 | |
| Vocational Education Basic | 65 | |
| Title III Part A Language Education Program | 20,827 | |
| Title IV Part B 21 st Century | 64,936 | |
| Title IV Part A Summer School LEP | 10,018 | |
| | <u>314,182</u> | <u>-0-</u> |
| Internal Service Fund: | | |
| Workers' Compensation | | <u>102,968</u> |
| Total General Fund | <u>314,182</u> | <u>102,968</u> |
| Special Revenue Funds: | | |
| General Fund: | | |
| McKinney-Vento – Texas Support for | | |
| Homeless Education | | 12,947 |
| ESEA Title I, Part A Improving Basic Programs | | 71,803 |
| IDEA Part B Formula | | 133,586 |
| Vocational Education Basic | | 65 |
| Title III Part A Language Education Program | | 20,827 |
| Title IV Part B 21 st Century | | 64,936 |
| Title IV Part A Summer School LEP | | 10,018 |
| | | <u>314,182</u> |
| Total Special Revenue Funds | <u>-0-</u> | <u>314,182</u> |
| Internal Service Fund: | | |
| Workers' Compensation Fund: | | |
| General fund | <u>102,968</u> | <u>-0-</u> |
| Total Internal Service Fund | <u>-0-</u> | <u>-0-</u> |
| Total | <u>\$ 417,150</u> | <u>\$ 417,150</u> |

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

YEAR ENDED JUNE 30, 2016

NOTE 4. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS (Continued)**Interfund Transfers**

Interfund transfers for the year ended June 30, 2016 consisted of the following individual fund transfers in and transfers out:

| <u>Transferring Fund</u> | <u>Receiving Fund</u> | <u>Amount</u> |
|--------------------------|-----------------------------------|-------------------|
| General Fund | Internal Service | \$ 129,056 |
| Capital Projects Fund | Food Service Special Revenue Fund | <u>25,826</u> |
| | | <u>\$ 154,882</u> |

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

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 June 30, 2016:

| | <u>Balance July 1, 2014</u> | <u>Additions</u> | <u>Transfers</u> | <u>Retirements</u> | <u>Balance June 30, 2015</u> |
|-------------------------------------------|-------------------------------------|----------------------|---------------------|---------------------|--------------------------------------|
| Non-Depreciated Capital Assets: | | | | | |
| Land | \$ 23,789,998 | \$ 10,000 | \$ | \$ 1,469,110 | \$ 22,330,888 |
| Construction in progress | <u>7,612,978</u> | <u>19,211,383</u> | <u>(1,778,404)</u> | | <u>25,045,957</u> |
| Total non-depreciated | <u>31,402,976</u> | <u>19,221,383</u> | <u>(1,778,404)</u> | <u>1,469,110</u> | <u>47,376,845</u> |
| Depreciated Capital Assets: | | | | | |
| Buildings & improvements | \$ 385,161,680 | 696,718 | 1,778,404 | | 387,636,802 |
| Furniture, equipment & vehicles | <u>28,403,036</u> | <u>1,306,868</u> | | <u>1,766,134</u> | <u>27,943,770</u> |
| Total depreciated | <u>413,564,716</u> | <u>2,003,586</u> | <u>1,778,404</u> | <u>1,766,134</u> | <u>415,580,572</u> |
| Total additions/transfers and retirements | | <u>\$ 21,224,969</u> | <u>\$ -0-</u> | <u>\$ 3,235,244</u> | |
| Accumulated Depreciation: | | | | | |
| Buildings & improvements | 111,181,817 | \$ 8,902,817 | \$ | \$ | 120,084,634 |
| Furniture, equipment & vehicles | <u>21,262,889</u> | <u>1,773,279</u> | | <u>1,727,143</u> | <u>21,309,025</u> |
| Total accumulated depreciation | <u>132,444,706</u> | <u>\$ 10,676,096</u> | <u>\$ -0-</u> | <u>\$ 1,727,143</u> | <u>141,393,659</u> |
| Net depreciated assets | <u>281,120,010</u> | | | | <u>274,186,913</u> |
| Net capital assets | <u>\$ 312,522,986</u> | | | | <u>\$ 321,563,758</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2016****NOTE 5. CAPITAL ASSETS (Continued)****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:

| <u>Data Control Codes</u> | <u>Function</u> | <u>Amount</u> |
|-------------------------------|-----------------------------------------------|----------------------|
| 0011 | Instruction | \$ 6,414,276 |
| 0012 | Instructional resources and media services | 269,023 |
| 0013 | Curriculum and staff development | 2,633 |
| 0021 | Instructional leadership | 82,063 |
| 0023 | School leadership | 11,618 |
| 0031 | Guidance, counseling, and evaluation services | 11,939 |
| 0032 | Social work services | 15,008 |
| 0033 | Health services | 9,369 |
| 0034 | Student transportation | 1,012,393 |
| 0035 | Food service | 654,375 |
| 0036 | Extracurricular activities | 1,272,493 |
| 0041 | General administration | 92,750 |
| 0051 | Plant maintenance and operations | 198,211 |
| 0052 | Security and monitoring services | 20,635 |
| 0053 | Data processing services | <u>609,310</u> |
| | Total depreciation expense | <u>\$ 10,676,096</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. The District was not a party to any loan transactions during the year ended June 30, 2016.

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 gains and losses on refunding are amortized using the straight-line method.

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2016****NOTE 6. LONG-TERM DEBT (Continued)****General Obligation Bonds (Continued)**

The following is a summary of the District's general obligation bonded debt as of June 30, 2016:

| <u>Date of Issue</u> | <u>Original Issue</u> | <u>Final Maturity</u> | <u>Date Callable</u> | <u>% Rates</u> | <u>Outstanding Balance</u> |
|----------------------|-----------------------|-----------------------|----------------------|----------------|----------------------------|
| 1997 | \$ 2,512,590 | 2018 | -- | 5.800 - 5.900 | \$ 1,894,466 |
| 2001 | 22,500,000 | 2025 | 2021 | 4.125 - 4.750 | 22,500,000 |
| 2007 | 111,665,000 | 2032 | 2017 | 4.000 - 5.000 | 29,680,000 |
| 2007A | 31,535,000 | 2022 | 2017 | 4.000 - 5.000 | 20,345,000 |
| 2011 | 8,740,000 | 2027 | 2021 | 4.000 | 8,690,000 |
| 2012 | 62,845,000 | 2029 | 2021 | 3.000 - 5.000 | 61,750,000 |
| 2013A | 15,490,000 | 2029 | 2023 | 3.000 - 5.000 | 12,825,000 |
| 2013B | 38,155,000 | 2029 | 2023 | 2.000 - 5.000 | 37,540,000 |
| 2014 | 30,540,000 | 2029 | 2024 | 2.000 - 5.000 | 30,180,000 |
| 2014 | 28,655,000 | 2039 | 2024 | 2.000 - 5.000 | 25,195,000 |
| 2016 | <u>41,335,000</u> | 2032 | 2026 | 5.000 - 5.250 | <u>41,335,000</u> |
| Total | <u>\$ 393,972,590</u> | | | | <u>\$ 291,934,466</u> |

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

| <u>Year Ended June 30</u> | <u>Principal</u> | <u>Interest</u> | <u>Total Requirement</u> |
|-------------------------------|-----------------------|-----------------------|--------------------------|
| 2017 | \$ 12,565,000 | \$ 13,059,157 | \$ 25,624,157 |
| 2018 | 13,050,000 | 12,846,804 | 25,896,804 |
| 2019 | 13,650,000 | 12,272,454 | 25,922,454 |
| 2020 | 14,295,000 | 11,650,129 | 25,945,129 |
| 2021 | 14,955,000 | 10,974,253 | 25,929,253 |
| 2022-2026 | 85,815,000 | 44,164,719 | 129,979,719 |
| 2027-2031 | 102,185,000 | 23,312,729 | 125,497,729 |
| 2032-2036 | 29,110,000 | 3,977,262 | 33,087,262 |
| 2037-2039 | <u>6,400,000</u> | <u>650,500</u> | <u>7,050,500</u> |
| Totals | <u>\$ 292,025,000</u> | <u>\$ 132,908,007</u> | <u>\$ 424,933,007</u> |

The \$ 90,534 difference between the general obligation bonds outstanding at June 30, 2016 of \$ 291,934,466 and the general obligation bond principal requirements of \$ 292,025,000 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.

There are limitations and restrictions contained in the general obligation bond indentures. The District is in compliance with all significant limitations and restrictions at June 30, 2016.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 6. LONG-TERM DEBT (Continued)

Debt Issuances And Defeased Debt

During the year ended August 31, 1998, the District issued \$ 39,275,000 in Unlimited Tax School Building and Refunding Bonds for construction of facilities and refunding of previously issued outstanding bonds, as follows: \$ 3,420,000 Unlimited Tax School Building and Refunding Bonds, Series 1993; \$ 15,820,000 Unlimited Tax School Building and Refunding Bonds, Series 1996; and \$ 15,270,000 Unlimited Tax School Building and Refunding Bonds, Series 1997. The District placed the proceeds of the refunding in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the bonds issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 12,874,368. The economic gain resulting from the transaction was \$ 5,160,598. The outstanding balance of these defeased bonds at June 30, 2016 was \$ 5,275,000 and the balance held in escrow was \$ 5,202,079.

During the year ended August 31, 2011, the District entered into a fixed rate conversion of \$ 22,500,000 Unlimited Tax Schoolhouse Bonds, Series 2001B. The District paid off the previous \$ 22,500,000 Unlimited Tax Schoolhouse Bonds, Series 2001B adjustable rate bonds with the proceeds from the fixed rate conversion. The bonds paid off with the conversion carried adjustable interest rates from 4.50% to 5.88%. The fixed rate conversion results in the District receiving fixed interest rates from 4.125% to 4.750%. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the conversion was an increase of \$ 1,870,050. The economic gain resulting from the transaction was \$ 1,428,707. The outstanding balance of the fixed rate bonds at June 30, 2015 was \$ 22,500,000.

During the ten months ended June 30, 2013, the District issued \$ 15,490,000 in Unlimited Tax Refunding Bonds, Series 2013A for the refunding of \$ 17,020,000 previously issued bonds as follows: \$ 3,370,000 in Unlimited Tax Schoolhouse Building, Series 2001C; \$ 1,000,000 Unlimited Tax Schoolhouse Building, Series 2003A; \$ 12,100,000 Unlimited Tax Schoolhouse and Refunding Bonds, Series 2005A, and \$550,000 in Unlimited Tax Schoolhouse and Refunding Bonds, Series 2007. The District placed the proceeds of the refunding, in the amount of \$ 18,246,495, in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the bonds issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 1,031,258. The economic gain resulting from the transaction was \$ 912,986. The outstanding balance of these defeased bonds at June 30, 2016 was \$ 550,000 and the balance held in escrow was \$ 574,513.

During the year ended June 30, 2015, the District issued \$ 28,655,000 in Unlimited Tax Schoolhouse and Refunding Bonds, Series 2014B, for the refunding of \$ 30,350,000 previously issued outstanding bonds as follows: \$ 3,045,000 Unlimited Tax Refunding Bonds, Series 2005; \$ 455,000 Unlimited Tax Schoolhouse and Refunding Bonds, Series 2005A; and \$ 26,850,000 Unlimited Tax Schoolhouse Bonds, Series 2007. The District placed the proceeds of the refunding, in the amount of \$ 33,171,384, in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the bonds issued being refunded. The difference between the cash flow required to service the old

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2016****NOTE 6. LONG-TERM DEBT (Continued)****Debt Issuances And Defeased Debt (Continued)**

debt and that required to service the new debt and complete the refunding was an increase of \$ 2,745,793. The economic gain resulting from the transaction was \$ 2,334,734. The outstanding balance of these defeased bonds at June 30, 2016 was \$ 26,850,000 and the balance held in escrow was \$ 24,342,914.

During the year ended June 30, 2016, the District issued \$ 41,335,000 in Unlimited Tax Schoolhouse and Refunding Bonds, Series 2016, for the refunding of \$ 49,080,000 previously issued Unlimited Tax Schoolhouse Bonds, Series 2007. The District placed the proceeds of the refunding, in the amount of \$ 51,051,646, in an escrow fund. The escrow fund is irrevocably pledged to the payment of principal and interest on the bonds issued being refunded. The difference between the cash flow required to service the old debt and that required to service the new debt and complete the refunding was a decrease of \$ 9,236,931. The economic gain resulting from the transaction was \$ 6,034,256. The outstanding balance of these defeased bonds at June 30, 2016 was \$ 49,080,000 and the balance held in escrow was \$ 51,127,675.

Changes in Long-Term Liabilities

Long-term liability activity for the governmental activities for the year ended June 30, 2016 was as follows:

| | Balance 07-01-15 | Additions | Reductions | Balance 06-30-16 | Due Within One Year |
|------------------------------------------------|-----------------------|----------------------|----------------------|-----------------------|---------------------------|
| Long-Term Debt: | | | | | |
| General obligation bonds | \$ 311,055,882 | \$ 41,443,584 | \$ 60,565,000 | \$ 291,934,466 | \$ 12,632,667 |
| Net pension obligation | 16,258,097 | 27,315,094 | 5,947,714 | 37,625,477 | |
| Components of Long-Term Debt: | | | | | |
| Premium on general obligation bonds payable | 23,807,463 | 9,921,717 | 2,215,834 | 31,513,346 | 2,247,295 |
| Accrued interest payable | <u>5,021,362</u> | <u>4,723,306</u> | <u>5,021,362</u> | <u>4,723,306</u> | <u>4,723,306</u> |
| | <u>\$ 356,142,804</u> | <u>\$ 83,403,701</u> | <u>\$ 73,749,910</u> | <u>\$ 365,796,595</u> | <u>\$ 19,603,268</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 7. LEASES

Operating Leases

Commitments under operating lease (non-capital) agreements for copier equipment, telephone equipment, security systems, and postage machines provide for minimum future rental payments as of June 30, 2016 as follows:

| <u>Year Ended June 30</u> | <u>Amount</u> |
|-------------------------------|---------------------|
| 2017 | \$ 595,323 |
| 2018 | 557,880 |
| 2019 | 316,240 |
| 2020 | 193,438 |
| 2021 | 187,529 |
| 2022 | <u>187,529</u> |
| Total minimum rentals | <u>\$ 2,037,939</u> |

Rental expenditures on the above-mentioned equipment for the year ended June 30, 2016 were \$ 1,039,101.

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

All employees of public, state-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

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 8. DEFINED BENEFIT PENSION PLANS – (Continued)

Benefits Provided – (Continued)

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 established 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.

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 2015 and 2016.

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 # 1284 – 2015 Employer Contributions | | \$ 3,151,764 |
| Employer # 1284 – 2015 Member Contributions | | \$ 2,741,946 |
| Employer # 1284 – 2015 NECE On-behalf Contributions | | \$ 5,875,651 |
| Employer # 1284 – 2015 Medicare Part D Contributions | | \$ 349,830 |

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:

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 8. DEFINED BENEFIT PENSION PLANS – (Continued)

Contributions – (Continued)

- 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.

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 |
| Discount Rate | 8.00% |
| Long-term expected Investment Rate of Return* | 8.00% |
| Inflation | 2.5% |
| Salary Increases* | 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

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 8. DEFINED BENEFIT PENSION PLANS – (Continued)

Discount Rate – (Continued)

rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

| Asset Class | Target Allocation | Long-Term Expected Geometric Real Rate of Return | 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 | 100% | | 8.7% |

* 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 | \$ 58,952,031 | \$ 37,625,477 | \$ 19,861,783 |

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 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 June 30, 2016, the District reported a liability of \$ 37,625,477 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 | \$ 37,625,477 |
| State's proportionate share that is associated with the District | <u>20,222,708</u> |
| Total | <u>\$ 57,848,185</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 portion of the collective net pension liability was 0.106441% which was an increase of 0.455752% 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%.
5. The post-retirement mortality tables for non-disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
6. The post-retirement mortality tables for disabled retirees were updated to reflect recent TRS member experience. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.
7. The pre-retirement mortality tables for active employees were updated to use 90% of the recently published RP-2014 mortality table for active employees. Mortality rates will be assumed to continue to improve in the future using a fully generational approach and Scale BB.

Other Demographic Assumptions

8. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.

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

YEAR ENDED JUNE 30, 2016

NOTE 8. DEFINED BENEFIT PENSION PLANS – (Continued)

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, 2015, the District recognized pension expense of \$ 7,633,623 and revenue of \$ 5,875,651 for support provided by the State.

At June 30, 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 | \$ 181,305 | \$ 1,445,981 |
| Changes in actuarial assumptions | 762,028 | 1,342,312 |
| Difference between projected and actual investment earnings | 9,266,317 | 3,583,124 |
| Changes in proportion and difference between the employer's contributions and the proportionate share of contributions | 10,415,154 | 10,730 |
| Contribution paid to TRS subsequent to the measurement date | <u>2,962,995</u> | |
| Total | \$ <u>23,587,799</u> | \$ <u>6,382,147</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2016****NOTE 8. DEFINED BENEFIT PENSION PLANS – (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> |
|------------------------------|---------------------------------------|
| 2016 | \$ 2,585,030 |
| 2017 | 2,585,030 |
| 2018 | 2,585,030 |
| 2019 | 3,827,315 |
| 2020 | 1,494,828 |
| 2021 | 1,165,424 |

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: | | |
| School Health and Related Services (SHARS) | --- | \$ 1,263,576 |
| Medicaid Administrative Claiming Program (MAC) | 93.778 | 25,724 |
| ROTC Salary Aid | 12.000 | <u>166,978</u> |
| Total direct | | <u>1,456,278</u> |
| Indirect Costs: | | |
| ESEA, Title I, Part A - Improving Basic Programs | 84.010 | 21,227 |
| Vocational Education - Basic | 84.048 | 2,115 |
| McKinney-Vento - Texas Support for Homeless Education | 84.196 | 533 |
| Title III, Part A - English Language and Language Enhancement | 84.365 | 5,039 |
| Title II, Part A - Teacher and Principal Training and Recruiting | 84.367 | <u>2,833</u> |
| Total indirect | | <u>31,747</u> |
| Total | | <u>\$ 1,488,025</u> |

The School Health and Related Services (SHARS) funds are not considered federal financial assistance for inclusion in the Schedule of Federal Financial Assistance.

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

YEAR ENDED JUNE 30, 2016

NOTE 10. LOCAL AND INTERMEDIATE REVENUES

During the year ended June 30, 2016, local and intermediate revenues for governmental funds consisted of the following:

| | Major Funds | | | Other | |
|--------------------------------------------------------|----------------------|----------------------|------------------|---------------------|----------------------|
| | General | Debt | Capital | Governmental | Total |
| | Fund | Service | Projects | Funds | |
| | | Fund | Funds | | |
| Property Taxes | \$ 64,997,846 | \$ 23,472,974 | \$ | \$ | \$ 88,470,820 |
| Food sales | | | | 5,066,394 | 5,066,394 |
| Investment income | 106,142 | 33,537 | 28,775 | 2,820 | 171,274 |
| Penalties, interest and other tax related income | 430,363 | 137,595 | | | 567,958 |
| Other tuition and fees from patrons | 257,342 | | | | 257,342 |
| Co-curricular income | 395,882 | | | | 395,882 |
| Rent | 403,560 | | | | 403,560 |
| Contributions | 120,000 | | | | 120,000 |
| Other | <u>386,696</u> | | | <u>1,054</u> | <u>387,750</u> |
| Total | <u>\$ 67,097,831</u> | <u>\$ 23,644,106</u> | <u>\$ 28,775</u> | <u>\$ 5,070,268</u> | <u>\$ 95,840,980</u> |

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 the year ended June 30, 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. SELF-INSURED WORKERS' COMPENSATION

Beginning September 1, 1991, the District established its self-funding Workers' Compensation program. The accrued liability for the Workers' Compensation self-insurance program is projected to be \$ 32,211 as of June 30, 2016. The District claim history does not allow for a credible projection of loss adjustment expenses (LAE), data from other self-insured and insurance entities suggests costs for these items may be in the neighborhood of 5% of the liability for losses. As of September 1, 2012, the District chose to switch to a fully insured workers' compensation program with Texas Mutual Insurance Company. The above liability is from claims before July 1, 2014 from the self-insured program which have not been closed out as of June 30, 2016.

PEARLAND INDEPENDENT SCHOOL DISTRICT**NOTES TO THE FINANCIAL STATEMENTS****YEAR ENDED JUNE 30, 2016****NOTE 12. SELF-INSURED WORKERS' COMPENSATION – (Continued)**

This liability reported in the fund at June 30, 2016, is based on the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of loss can be reasonably estimated. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing the liability does not result necessarily in an exact amount.

Changes in the workers' compensation claim liability amounts in fiscal 2014-2015 and 2015-2016 are represented below:

| | Beginning of Fiscal-Period Liability | Current-Period Claims and Changes in Estimates | Claim Payments | Balance at Fiscal Period-End |
|-----------------------------------------------|--------------------------------------------|---------------------------------------------------------|-------------------|------------------------------------|
| 2014-2015 Year Ended Workers' Compensation | \$ 36,180 | \$ 126,013 | \$ 106,586 | \$ 55,607 |
| 2015-2016 Year Ended Workers' Compensation | 55,607 | 17,269 | 40,665 | 32,211 |

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 collect ability of any related receivable at June 30, 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 for Brazoria County Juvenile Justice Alternative Education Program with six other school districts. Although a percentage of the activity of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Brazoria County, 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 Pearland Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. The expenditures attributable to the District's participation totaled \$ 20,000 and were coded to 6223 Student tuition - other than to public schools.

PEARLAND INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2016

NOTE 14. JOINT VENTURED-SHARED SERVICE ARRANGEMENTS – (Continued)

The District participates in a shared services arrangement with Deer Park Independent School District for the supply of electricity and ancillary services to all facilities of the District. Deer Park Independent School District is the fiscal agent. All services are provided by the fiscal agent for the supply of electricity, the negotiation to purchase electricity, ancillary services, or other energy related products and services, and to encourage efficiency of operation and conservation on behalf of the buyer. 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, Deer Park ISD, 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 Pearland Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. The expenditures attributable to the District's participation totaled \$ 11,379 and were coded to 6492 payments to fiscal agents. This shared service arrangement was cancelled during the current fiscal year.

NOTE 15. EVALUATION OF SUBSEQUENT EVENTS

The District has evaluated subsequent events through November 4, 2016, the date which the financial statements were available to be issued.

On August 9, 2016, The District's Board of Trustees approved an order for a bond election for \$ 220,000,000 on November 8, 2016 focused on 36 projects within the district.

Also, on August 9, 2016, the District's Board of Trustees approved a Resolution providing for the redemption of certain outstanding obligations designated as "Pearland Independent School District Unlimited Tax Refunding Bonds, Series 2007", in the amount of \$ 1,220,000.

On September 2, 2016, the District received confirmation of 2014 SHARS Cost Report Settlement for HHSC Rate Analysis Division (RAD) Adjustments (general and statistical adjustments) and Medicaid Allowable Calculation after HHSC RAD Adjustments (direct medical expenses and transportation services) which resulted in changes in rates for the period October 1, 2013 through September 30, 2014, and an additional anticipated subsequent payment of \$ 1,727,466 to the District.

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REQUIRED SUPPLEMENTARY INFORMATION

PEARLAND INDEPENDENT SCHOOL DISTRICT
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
YEAR ENDED JUNE 30, 2016**
**EXHIBIT G-1
Page 1 of 1**

| | | General Fund | | | Variance with Final Budget Positive (Negative) |
|--------------------------|----------------------------------------------------------------|--------------------|--------------------|--------------------|---------------------------------------------------------|
| Data Control Codes | | Budgeted Amounts | | Actual | |
| | | Original | Final | | |
| | REVENUES: | | | | |
| 5700 | Local and intermediate sources | \$ 64,267,304 | \$ 65,267,304 | \$ 67,097,831 | \$ 1,830,527 |
| 5800 | State program revenues | 87,971,777 | 88,971,777 | 91,703,004 | 2,731,227 |
| 5900 | Federal program revenues | <u>461,000</u> | <u>1,261,000</u> | <u>1,488,025</u> | <u>227,025</u> |
| 5020 | Total revenues | <u>152,700,081</u> | <u>155,500,081</u> | <u>160,288,860</u> | <u>4,788,779</u> |
| | EXPENDITURES: | | | | |
| | Current: | | | | |
| 0011 | Instruction | 91,097,190 | 94,605,667 | 92,725,179 | 1,880,488 |
| 0012 | Instructional resources and media services | 1,509,295 | 1,589,258 | 1,566,006 | 23,252 |
| 0013 | Curriculum and staff development | 4,528,404 | 4,651,902 | 4,431,773 | 220,129 |
| 0021 | Instructional leadership | 1,931,466 | 1,948,337 | 1,880,881 | 67,456 |
| 0023 | School leadership | 9,613,628 | 9,942,969 | 9,847,842 | 95,127 |
| 0031 | Guidance, counseling, and evaluation services | 5,589,546 | 5,397,301 | 5,296,331 | 100,970 |
| 0032 | Social work services | 465,097 | 501,888 | 490,739 | 11,149 |
| 0033 | Health services | 1,390,564 | 1,437,177 | 1,417,082 | 20,095 |
| 0034 | Student transportation | 7,774,976 | 7,767,340 | 6,497,794 | 1,269,546 |
| 0036 | Extracurricular activities | 4,200,041 | 4,359,549 | 3,948,679 | 410,870 |
| 0041 | General administration | 4,145,352 | 4,208,241 | 3,977,831 | 230,410 |
| 0051 | Plant maintenance and operations | 16,409,756 | 23,100,596 | 21,036,965 | 2,063,631 |
| 0052 | Security and monitoring services | 1,975,061 | 1,975,917 | 1,808,689 | 167,228 |
| 0053 | Data processing services | 3,942,834 | 4,174,950 | 3,776,107 | 398,843 |
| 0061 | Community services | 12,856 | 12,856 | 4,759 | 8,097 |
| 0080 | Capital outlay | | 264,035 | 242,899 | 21,136 |
| 0093 | Payments related to shared services agreements | 5,611,273 | 11,379 | 11,379 | -0- |
| 0095 | Payments to Juvenile Justice Alternative Education Programs | 123,672 | 123,672 | 20,000 | 103,672 |
| 0099 | Other intergovernmental charges | <u>586,420</u> | <u>606,420</u> | <u>597,519</u> | <u>8,901</u> |
| 6030 | Total expenditures | <u>160,907,431</u> | <u>166,679,454</u> | <u>159,578,454</u> | <u>7,101,000</u> |
| 1100 | Excess (deficiency) of revenues over expenditures | (8,207,350) | (11,179,373) | 710,406 | 11,889,779 |
| | OTHER FINANCING SOURCES (USES): | | | | |
| 7912 | Sale of real and personal property | | | 10,480 | 10,480 |
| 8911 | Transfers out | | | (129,056) | (129,056) |
| | Total other financing sources (uses) | <u>-0-</u> | <u>-0-</u> | <u>(118,576)</u> | <u>(118,576)</u> |
| 1200 | Net change in fund balances | (8,207,350) | (11,179,373) | 591,830 | 11,771,203 |
| 0100 | Fund balances – beginning | <u>49,022,217</u> | <u>49,022,217</u> | <u>49,022,217</u> | <u>-0-</u> |
| 3000 | Fund balances – ending | \$ 40,814,867 | \$ 37,842,844 | \$ 49,614,047 | \$ 11,771,203 |

PEARLAND INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY AND
RELATED RATIOS – COST SHARING EMPLOYER PLAN
JUNE 30, 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 (asset) | 0.0608658% | 0.1064410% |
| District's proportionate share of the net pension liability (asset) | \$ 16,258,097 | \$ 37,625,477 |
| State's proportionate share of the net pension liability (asset) associated with the District | <u>9,818,510</u> | <u>20,222,708</u> |
| Total | <u>\$ 26,076,607</u> | <u>\$ 57,848,185</u> |
| District's covered-employee payroll | \$ 103,284,170 | \$ 111,507,045 |
| District's proportionate share of the net pension liability (asset) as a percentage of its Covered employee payroll | 15.74% | 33.74% |
| 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 is available.

PEARLAND INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF REQUIRED CONTRIBUTIONS – COST SHARING EMPLOYER PLAN**

JUNE 30, 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 | \$ 1,543,117 | \$ 3,151,764 |
| Contributions in relation to the contractually required contribution | <u>1,543,117</u> | <u>3,151,764</u> |
| Contribution deficiency (excess) | \$ <u>-0-</u> | \$ <u>-0-</u> |
| District's covered-employee payroll | \$ 103,284,170 | \$ 111,507,045 |
| Contributions as a percentage of covered-employee payroll | 1.49% | 2.83% |

(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 is available.

OTHER SUPPLEMENTARY INFORMATION

PEARLAND INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

| Data Control Codes | | Special | | | | |
|--------------------------|------------------------------------------------------------------------|-------------------------------------------------------------------------|----------------------------------|----------------------------------|------------------------------------|-------------------------------------------------------------|
| | | 206 McKinney- Vento Texas Support for Homeless Education | 211 ESEA Title I Part A | 224 IDEA Part B Formula | 225 IDEA Part B Preschool | 240 National School Lunch and Breakfast Program |
| | ASSETS AND OUTFLOWS OF RESOURCES | | | | | |
| | Assets: | | | | | |
| 1110 | Cash and cash equivalents | \$ | \$ | \$ | \$ 3,100 | \$ 2,483,922 |
| 1240 | Receivables from other governments | 16,052 | 235,689 | 383,760 | 4,274 | 29,067 |
| 1290 | Other receivables | | | | | 556 |
| 1300 | Inventories | | | | | 80,175 |
| 1000 | Total assets | <u>16,052</u> | <u>235,689</u> | <u>383,760</u> | <u>7,374</u> | <u>2,593,720</u> |
| | Deferred Outflow of Resources: | | | | | |
| 1700 | Deferred outflows of resources | | | | | |
| | Total deferred outflows of resources | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| 1000A | Total assets and deferred outflows of resources | <u>\$ 16,052</u> | <u>\$ 235,689</u> | <u>\$ 383,760</u> | <u>\$ 7,374</u> | <u>\$ 2,593,720</u> |
| | LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES: | | | | | |
| | Liabilities: | | | | | |
| 2110 | Accounts payable | \$ 3,105 | \$ | \$ 3,049 | \$ | \$ 2,824 |
| 2160 | Accrued wages payable | | 163,886 | 247,125 | 7,374 | 443,408 |
| 2170 | Due to other funds | 12,947 | 71,803 | 133,586 | | |
| 2300 | Unearned revenue | | | | | |
| 2000 | Total liabilities | <u>16,052</u> | <u>235,689</u> | <u>383,760</u> | <u>7,374</u> | <u>446,232</u> |
| | Deferred Inflows of Resources: | | | | | |
| 1700 | Deferred inflows of resources | | | | | |
| | Total deferred inflows of resources | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| | Fund Balances: | | | | | |
| 3410 | Non-spendable - Inventories | | | | | 80,175 |
| 3450 | Restricted – grant funds | | | | | 2,067,313 |
| 3000 | Total fund balances | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>2,147,488</u> |
| 4000 | Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 16,052</u> | <u>\$ 235,689</u> | <u>\$ 383,760</u> | <u>\$ 7,374</u> | <u>\$ 2,593,720</u> |

| Revenue Funds | | | | | | | |
|----------------------------------|---------------------------------------------|---------------------------------------------------------|---------------------------------------|----------------------------------------|--------------------------------------|---------------------------|------------------------------------------|
| 244 | 255 | 263 | 265 | 289 | 383 | 397 | 410 |
| Vocational Education Basic | Title II Part A Teacher/ Principal | Title III Part A Language Education Program | Title IV Part B 21st Century | Title VI Part A Summer School | Professional Staff Development | AP/IB Campus Awards | Instructional Materials Allocation |
| \$ 65 | \$ 9,424 | \$ 38,961 | \$ 83,095 | \$ 10,018 | \$ 11,552 | \$ 8,994 | \$ 54,370 |
| <u>65</u> | <u>9,424</u> | <u>38,961</u> | <u>83,095</u> | <u>10,018</u> | <u>11,552</u> | <u>8,994</u> | <u>54,370</u> |
| <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| <u>\$ 65</u> | <u>\$ 9,424</u> | <u>\$ 38,961</u> | <u>\$ 83,095</u> | <u>\$ 10,018</u> | <u>\$ 11,552</u> | <u>\$ 8,994</u> | <u>\$ 54,370</u> |
| \$ 65 | \$ 9,424 | \$ 18,134 | \$ 1,329 | \$ 10,018 | \$ 11,552 | \$ 8,994 | \$ 54,370 |
| | | 20,827 | 16,830 | | | | |
| | | | 64,936 | | | | |
| <u>65</u> | <u>9,424</u> | <u>38,961</u> | <u>83,095</u> | <u>10,018</u> | <u>11,552</u> | <u>-0-</u> | <u>-0-</u> |
| <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> |
| <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>8,994</u> | <u>54,370</u> |
| <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>8,994</u> | <u>54,370</u> |
| <u>\$ 65</u> | <u>\$ 9,424</u> | <u>\$ 38,961</u> | <u>\$ 83,095</u> | <u>\$ 10,018</u> | <u>\$ 11,552</u> | <u>\$ 8,994</u> | <u>\$ 54,370</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2016

EXHIBIT H-1
Page 2 of 2

| Data Control Codes | | Special Revenue Funds 429 | |
|--------------------------|------------------------------------------------------------------------|---------------------------------|--------------------------------------------|
| | | Read To Succeed | Total Nonmajor Governmental Funds |
| | ASSETS AND OUTFLOWS OF RESOURCES | | |
| | Assets: | | |
| 1110 | Cash and cash equivalents | \$ | \$ 2,571,956 |
| 1240 | Receivables from other governments | | 800,387 |
| 1290 | Other receivables | | 556 |
| 1300 | Inventories | | 80,175 |
| | | | |
| | | -0- | 3,453,074 |
| | 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 | \$ -0- | \$ 3,453,074 |
| | LIABILITIES AND FUND BALANCES: | | |
| | Liabilities: | | |
| 2110 | Accounts payable | \$ | \$ 10,307 |
| 2160 | Accrued wages payable | | 906,181 |
| 2170 | Due to other funds | | 314,182 |
| 2300 | Unearned revenue | | 11,552 |
| | | | |
| 2000 | Total liabilities | -0- | 1,242,222 |
| | Deferred Inflows of Resources: | | |
| 1700 | Deferred inflows of resources | | -0- |
| | Total deferred inflows of resources | -0- | -0- |
| | Fund Balances: | | |
| 3410 | Non-spendable - Inventories | | 80,175 |
| 3450 | Restricted - grant funds | | 2,130,677 |
| | | | |
| 3000 | Total fund balances | -0- | 2,210,852 |
| 4000 | Total liabilities, deferred inflows of resources, and fund balances | \$ -0- | \$ 3,453,074 |

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PEARLAND INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

| Data Control Codes | | 206 | 211 | 224 | 225 | Special 240 |
|--------------------------|---------------------------------------------------|------------------------------------------------------------------|---------------------------|---------------------------|-----------------------------|------------------------------------------------------|
| | | McKinney- Vento Texas Support for Homeless Education | ESEA Title I Part A | IDEA Part B Formula | IDEA Part B Preschool | National School Lunch and Breakfast Program |
| | REVENUES: | | | | | |
| 5700 | Local and intermediate sources | \$ | \$ | \$ | \$ | \$ 5,069,214 |
| 5800 | State program revenues | | | | | 203,205 |
| 5900 | Federal program revenues | 29,333 | 1,167,690 | 2,686,741 | 43,069 | 3,888,094 |
| 5020 | Total revenues | 29,333 | 1,167,690 | 2,686,741 | 43,069 | 9,160,513 |
| | EXPENDITURES: | | | | | |
| | Current: | | | | | |
| 0011 | Instruction | 15,940 | 1,137,624 | 1,745,538 | 43,069 | |
| 0012 | Instructional resources and media services | | | | | |
| 0013 | Curriculum and staff development | | 24,249 | 22,621 | | |
| 0021 | Instructional leadership | 1,886 | | 114,515 | | |
| 0023 | School leadership | | | | | |
| 0031 | Guidance, counseling, and evaluation services | | | 804,067 | | |
| 0032 | Social work services | 11,507 | 1,239 | | | |
| 0035 | Food service | | | | | 8,829,449 |
| 0052 | Security and monitoring services | | | | | |
| 0063 | Data processing services | | | | | |
| 0061 | Community services | | 4,578 | | | |
| 6030 | Total expenditures | 29,333 | 1,167,690 | 2,686,741 | 43,069 | 8,829,449 |
| 1100 | Excess (deficiency) of revenues over expenditures | -0- | -0- | -0- | -0- | 331,064 |
| | OTHER FINANCING SOURCES (USES): | | | | | |
| 8911 | Transfers in | | | | | 25,826 |
| | Total other financing sources and (uses) | -0- | -0- | -0- | -0- | 25,826 |
| 1200 | Net changes in fund balances | -0- | -0- | -0- | -0- | 356,890 |
| 0100 | Fund balances - beginning | | | | | 1,790,598 |
| 3000 | Fund balances - ending | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ 2,147,488 |

| Revenue Funds | | | | | | | |
|----------------------------------|---------------------------------------------|---------------------------------------------------------|---------------------------------------|----------------------------------------|--------------------------------------|---------------------------|------------------------------------------|
| 244 | 255 | 263 | 265 | 289 | 383 | 397 | 410 |
| Vocational Education Basic | Title II Part A Teacher/ Principal | Title III Part A Language Education Program | Title IV Part B 21st Century | Title VI Part A Summer School | Professional Staff Development | AP/IB Campus Awards | Instructional Materials Allocation |
| \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| | | | | | 11,965 | 19,350 | 1,054 |
| 131,356 | 277,223 | 155,904 | 341,644 | 10,018 | | | 3,816,454 |
| 131,356 | 277,223 | 155,904 | 341,644 | 10,018 | 11,965 | 19,350 | 3,817,508 |
| 118,500 | 110,820 | 128,636 | 246,992 | 10,018 | | | 3,731,223 |
| 11,911 | 166,403 | 27,268 | | | 11,965 | 19,350 | 26,400 |
| | | | 94,307 | | | | |
| 945 | | | | | | | |
| | | | 345 | | | | 6,500 |
| 131,356 | 277,223 | 155,904 | 341,644 | 10,018 | 11,965 | 19,350 | 3,764,123 |
| -0- | -0- | -0- | -0- | -0- | -0- | -0- | 53,385 |
| -0- | -0- | -0- | -0- | -0- | -0- | -0- | -0- |
| -0- | -0- | -0- | -0- | -0- | -0- | -0- | 53,385 |
| | | | | | | 8,994 | 985 |
| \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ -0- | \$ 8,994 | \$ 54,370 |

PEARLAND INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2016

EXHIBIT H-2
Page 2 of 2

| Data Control Codes | | Special Revenue Funds 429 | |
|--------------------------|---------------------------------------------------|---------------------------------|--------------------------------------------|
| | | Read To Succeed | Total Nonmajor Governmental Funds |
| | REVENUES: | | |
| 5700 | Local and intermediate sources | \$ | \$ 5,070,268 |
| 5800 | State program revenues | 88 | 4,051,062 |
| 5900 | Federal program revenues | | 8,731,072 |
| | | | |
| 5020 | Total revenues | 88 | 17,852,402 |
| | EXPENDITURES: | | |
| | Current: | | |
| 0011 | Instruction | | 7,288,360 |
| 0012 | Instructional resources and media services | 88 | 26,488 |
| 0013 | Curriculum and staff development | | 283,767 |
| 0021 | Instructional leadership | | 116,401 |
| 0023 | School leadership | | 94,307 |
| 0031 | Guidance, counseling, and evaluation services | | 805,012 |
| 0032 | Social work services | | 12,746 |
| 0035 | Food service | | 8,829,449 |
| 0052 | Security and monitoring service | | 345 |
| 0053 | Data processing services | | 6,500 |
| 0061 | Community services | | 4,578 |
| | | | |
| 6030 | Total expenditures | 88 | 17,467,953 |
| | | | |
| 1100 | Excess (deficiency) of revenues over expenditures | -0- | 384,449 |
| | OTHER FINANCING SOURCES (USES): | | |
| 8911 | Transfers in | | 25,826 |
| | | | |
| | Total other financing sources and (uses) | -0- | 25,826 |
| | | | |
| 1200 | Net changes in fund balances | -0- | 410,275 |
| | | | |
| 0100 | Fund balances - beginning | | 1,800,577 |
| | | | |
| 3000 | Fund balances - ending | \$ -0- | \$ 2,210,852 |

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PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
YEAR ENDED JUNE 30, 2016

| Last Ten Periods Ended August 31, / June 30, | 1 | | 2 | | 3 | | 10 | |
|-------------------------------------------------|-------------|--------|--------------|--------|--------------------------------------------------------|---------------|-----------------------------------------|------------------|
| | Tax Rates | | | | Assessed/Appraised Value for School Tax Purposes | | Beginning Balance July 1, 2015 | |
| | Maintenance | | Debt Service | | | | | |
| 2007 and Prior (1) | \$ | ---- | \$ | ---- | \$ | ---- | \$ | 540,635 |
| 2008 (1) | | 1.0400 | | 0.3872 | | 4,836,495,656 | | 106,381 |
| 2009 (1) | | 1.0400 | | 0.3794 | | 5,237,283,359 | | 113,550 |
| 2010 (1) | | 1.0400 | | 0.3794 | | 5,103,026,983 | | 123,429 |
| 2011 (1) | | 1.0400 | | 0.3794 | | 5,534,742,285 | | 150,265 |
| 2012 (1) | | 1.0400 | | 0.3794 | | 5,364,894,533 | | 192,735 |
| 2013 (2) | | 1.0400 | | 0.3794 | | 5,300,745,597 | | 241,485 |
| 2014 (3) | | 1.0400 | | 0.3757 | | 5,402,049,384 | | 390,096 |
| 2015 (3) | | 1.0400 | | 0.3757 | | 5,737,388,969 | | 1,229,819 |
| 2016 School Period under Audit (3) | | 1.0400 | | 0.3756 | | 5,867,919,610 | | |
| 1000 Totals | | | | | | | \$ | <u>3,088,395</u> |

(1) Year Ended August 31,

(2) Ten Months Ended June 30, 2013

(3) Year Ended June 30,

| 20 | 31 | 32 | 40 | 50 |
|---------------------------------|-------------------------------------|--------------------------------------|---------------------------------|---------------------------------------|
| Current Year's Total Levy | Maintenance Total Collections | Debt Service Total Collections | Entire Year's Adjustments | Ending Balance June 30, 2016 |
| \$ | \$ 12,153 | \$ 2,505 | \$(52,431) | \$ 473,546 |
| | 7,312 | 2,722 | (655) | 95,692 |
| | 7,726 | 2,819 | (596) | 102,409 |
| | 13,539 | 4,939 | (179) | 104,772 |
| | 22,841 | 8,332 | (160) | 118,932 |
| | 27,688 | 10,101 | 28,180 | 183,126 |
| | 47,085 | 17,177 | 31,916 | 209,139 |
| | 104,749 | 37,841 | 26,096 | 273,602 |
| | 585,658 | 211,569 | (27,930) | 404,662 |
| <u>83,066,270</u> | <u>64,183,812</u> | <u>23,180,235</u> | <u>5,512,069</u> | <u>1,214,292</u> |
| <u>\$ 83,066,270</u> | <u>\$ 65,012,563</u> | <u>\$ 23,478,240</u> | <u>\$ 5,516,310</u> | <u>\$ 3,180,172</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT
FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
GENERAL FUND
JUNE 30, 2016
UNAUDITED

EXHIBIT J-3
Page 1 of 1

| Data Control Code | Explanation | Amount |
|-------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| 1 | Total General Fund Balance as of 06/30/16 (Exhibit C-1 object 3000 for the General Fund only) | \$ <u>49,614,047</u> |
| 2 | Total Non-Spendable Fund Balance (from Exhibit C-1 - total of object 341X-344X for the General Fund only) | 1,325,206 |
| 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) | 7,500,000 |
| 5 | Total Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only) | 13,010,000 |
| 6 | Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds representing unearned revenues) | 753,800 |
| 7 | Estimate of two month's average cash disbursements during the fiscal year | 28,604,556 |
| 8 | Estimate of delayed payments from state sources (58XX) including August payment delays | |
| 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 | 1,612,563 |
| 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>52,806,125</u> |
| 13 | Excess (deficit) unassigned General Fund balance (1 - 12) | \$(<u>3,192,078</u>) |

PEARLAND INDEPENDENT SCHOOL DISTRICT
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - FOOD SERVICE SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 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 | \$ 5,354,800 | \$ 5,354,800 | \$ 5,069,214 | \$(285,586) |
| 5800 | State program revenues | 185,000 | 185,000 | 203,205 | 18,205 |
| 5900 | Federal program revenues | <u>3,791,100</u> | <u>3,791,100</u> | <u>3,888,094</u> | <u>96,994</u> |
| 5020 | Total revenues | <u>9,330,900</u> | <u>9,330,900</u> | <u>9,160,513</u> | <u>(170,387)</u> |
| | EXPENDITURES: | | | | |
| | Current: | | | | |
| 0035 | Food service | <u>9,330,900</u> | <u>9,364,685</u> | <u>8,829,449</u> | <u>535,236</u> |
| 6030 | Total expenditures | <u>9,330,900</u> | <u>9,364,685</u> | <u>8,829,449</u> | <u>535,236</u> |
| 1100 | Excess (deficiency) of revenues over expenditures | <u>-0-</u> | <u>(33,785)</u> | <u>331,064</u> | <u>364,849</u> |
| | OTHER FINANCING SOURCES (USES): | | | | |
| 7915 | Transfers in | <u></u> | <u></u> | <u>25,826</u> | <u>25,826</u> |
| | Total other financing sources and (uses) | <u>-0-</u> | <u>-0-</u> | <u>25,826</u> | <u>25,826</u> |
| 1200 | Net change in fund balances | -0- | (33,785) | 356,890 | 390,675 |
| 0100 | Fund balances – beginning | <u>1,790,598</u> | <u>1,790,598</u> | <u>1,790,598</u> | <u>-0-</u> |
| 3000 | Fund balances – ending | \$ 1,790,598 | \$ 1,756,813 | \$ 2,147,488 | \$ 390,675 |

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - DEBT SERVICE FUND
YEAR ENDED JUNE 30, 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 | \$ 22,607,080 | \$ 22,607,080 | \$ 23,644,106 | \$ 1,037,026 |
| 5800 | State program revenues | <u>2,400,000</u> | <u>2,803,067</u> | <u>3,618,847</u> | <u>815,780</u> |
| 5020 | Total revenues | <u>25,007,080</u> | <u>25,410,147</u> | <u>27,262,953</u> | <u>1,852,806</u> |
| | EXPENDITURES: | | | | |
| | Current: | | | | |
| 0071 | Principal on long-term debt | 11,485,000 | 11,485,000 | 11,485,000 | -0- |
| 0072 | Interest on long-term debt | 13,344,080 | 13,685,000 | 13,684,091 | 909 |
| 0073 | Bond issuance costs and fees | <u>178,000</u> | <u>445,218</u> | <u>437,905</u> | <u>7,313</u> |
| 6030 | Total expenditures | <u>25,007,080</u> | <u>25,615,218</u> | <u>25,606,996</u> | <u>8,222</u> |
| 1100 | Excess (deficiency) of revenues over expenditures | <u>-0-</u> | <u>(205,071)</u> | <u>1,655,957</u> | <u>1,861,028</u> |
| | OTHER FINANCING SOURCES (USES): | | | | |
| 7911 | Proceeds from bonds | | 41,335,000 | 41,335,000 | -0- |
| 7916 | Premium on issuance of bonds | | 9,921,717 | 9,921,717 | -0- |
| 8949 | Payment to escrow agent | | <u>(51,051,646)</u> | <u>(51,051,646)</u> | <u>-0-</u> |
| | Total other financing sources and (uses) | <u>-0-</u> | <u>205,071</u> | <u>205,071</u> | <u>-0-</u> |
| 1200 | Net change in fund balances | -0- | -0- | 1,861,028 | 1,861,028 |
| 0100 | Fund balances – beginning | <u>14,986,658</u> | <u>14,986,658</u> | <u>14,986,658</u> | <u>-0-</u> |
| 3000 | Fund balances – ending | \$ 14,986,658 | \$ 14,968,658 | \$ 16,847,686 | \$ 1,861,028 |

FEDERAL AWARDS SECTION

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Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

Lake Jackson Office:

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

Angleton Office:

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Angleton, Texas 77515
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201 W. Webb
El Campo, Texas 77437
979-543-6836

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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
Pearland Independent School District
Pearland, Texas 77588

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 Pearland Independent School District (the "District"), as of and for the year ended June 30, 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 November 4, 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.

Board of Trustees
Pearland Independent School District
Pearland, Texas 77588

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
November 4, 2016

Kennemer, Masters & Lunsford

CERTIFIED PUBLIC ACCOUNTANTS

Limited Liability Company

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8 West Way Court
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El Campo, Texas 77437
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10850 Richmond Ave., Ste 135
Houston, Texas 77042
281-974-3416

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
Pearland Independent School District
Pearland, Texas 77588

Report on Compliance for Each Major Federal Program

We have audited the Pearland 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 June 30, 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 June 30, 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
November 4, 2016

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2016

Page 1 of 1

I. Summary of auditor's results:

1. Type of auditor's report issued on the financial statements: Unmodified.
2. No internal control finding, that was required to be reported in this schedule, was disclosed in the audit of the financial statements.
3. Noncompliance, which is material to the financial statements: None.
4. No internal control findings, that were required to be reported in this schedule, were disclosed in the audit of the 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: 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: Yes.

II. Findings related to the financial statements.

The audit disclosed the following finding required to be reported:

None.

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

The audit disclosed the following finding required to be reported:

None.

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR FINDINGS
YEAR ENDED JUNE 30, 2016

Page 1 of 1

None.

PEARLAND INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
YEAR ENDED JUNE 30, 2016

Page 1 of 1

None.

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

EXHIBIT K-1
Page 1 of 2

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass Through Entity Identifying Number</u> | <u>Expenditures Indirect Costs or Award Amount</u> |
|---------------------------------------------------------------|------------------------------------|-----------------------------------------------------------|----------------------------------------------------------------|
| <u>U.S. Department of Education</u> | | | |
| Passed Through State Department of Education: | | | |
| ESEA, Title I Part A, Improving Basic Programs | 84.010A | 15610101020908 | \$ 23,792 |
| ESEA, Title I Part A, Improving Basic Programs | 84.010A | 16610101020908 | 1,165,125 |
| | | | <u>1,188,917</u> |
| IDEA Part B, Formula* | 84.027 | 156600010209086600 | 18,720 |
| IDEA Part B, Formula* | 84.027 | 166600010209086600 | 2,668,021 |
| | | | <u>2,686,741</u> |
| Vocational Education, Basic Grant | 84.048 | 16420006020908 | <u>133,471</u> |
| IDEA Part B, Preschool* | 84.173 | 166610010209086610 | <u>43,069</u> |
| ESEA, Title II, Part A - Teacher/ Principal | 84.367A | 15694501020908 | 59,526 |
| ESEA, Title II, Part A - Teacher/ Principal | 84.367A | 16694501020908 | 222,736 |
| | | | <u>282,262</u> |
| Title III, Part A Language Education Program | 84.365A | 14671001020908 | 1,329 |
| Title III, Part A Language Education Program | 84.365A | 15671001020908 | 157,408 |
| | | | <u>158,737</u> |
| Title IV, Part B 21 st Century Program | 84.287 | S287C130044 | 11,273 |
| Title IV, Part B 21 st Century Program | 84.287 | S287C150044 | 330,371 |
| | | | <u>341,644</u> |
| Title VI, Part A, Summer School LEP | 84.369 | 69551402 | <u>10,018</u> |
| Passed Through Region 4 Education Service Center: | | | |
| Texas Support for Homeless Education | 84.196 | S196A130045 | <u>29,866</u> |
| TOTAL DEPARTMENT OF EDUCATION | | | \$ <u>4,874,725</u> |
| <u>U.S. Department of Agriculture</u> | | | |
| Direct Program: | | | |
| Commodity Supplement Program** | 10.555 | 020908 | \$ <u>580,312</u> |
| Passed Through State Department of Education: | | | |
| School Breakfast Program** | 10.553 | 7131401 | 627,303 |
| National School Lunch Program** | 10.555 | 7141401 | 2,680,479 |
| | | | <u>3,307,782</u> |
| TOTAL DEPARTMENT OF AGRICULTURE | | | \$ <u>3,888,094</u> |
| <u>U.S. Department of Defense</u> | | | |
| Direct Programs: | | | |
| ROTC | 12.000 | 020908 | \$ <u>166,978</u> |

PEARLAND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

EXHIBIT K-1
Page 2 of 2

| <u>Federal Grantor/Pass-Through Grantor/Program Title</u> | <u>Federal CFDA Number</u> | <u>Pass Through Entity Identifying Number</u> | <u>Expenditures Indirect Costs or Award Amount</u> |
|---------------------------------------------------------------------------------------------------------------------------|------------------------------------|-----------------------------------------------------------|----------------------------------------------------------------|
| <u>U.S. Department of Health & Human Services</u> | | | |
| Passed Through La Porte Independent School District: | | | |
| Medicaid Administrative Claiming Program - MAC | 93.778 | 020908 | \$ <u>25,724</u> |
| TOTAL FEDERAL ASSISTANCE | | | \$ <u>8,955,521</u> |
| * IDEA Cluster Programs | | | |
| ** National School Lunch Cluster Programs | | | |
| RECONCILIATION: | | | |
| Federal program revenues (Exhibit C-2) | | | \$ 10,219,097 |
| Less: School Health and Related Services (SHARS) not considered federal revenue for the Schedule of Federal Awards | | | <u>1,263,576</u> |
| Total federal financial assistance (Schedule of expenditures of Federal Awards) | | | \$ <u>8,955,521</u> |

See Notes to Supplement Schedule of Expenditures of Federal Awards

PEARLAND INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED JUNE 30, 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 \$ 532,148, while the monetary value of goods used and recognized as income and expenditures was \$ 580,312.

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 June 30, 2016. The information in this 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) | \$ 8,955,521 |
| Federal Revenue Not Included in the Schedule of Federal Awards: | |
| School Health and Related Services (SHARS) | <u>1,263,576</u> |
| Total federal revenue (Exhibit C-2) | \$ <u>10,219,097</u> |