

MERKEL
INDEPENDENT SCHOOL DISTRICT
TAYLOR COUNTY, TEXAS
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2016

MERKEL INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2016

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CERTIFICATE OF BOARD

Merkel
Independent School District

Name of School District


Taylor

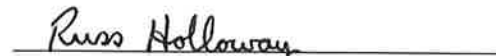
County

221904

County – District Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) ☒ approved ☐ disapproved for the year ended **August 31, 2016**, at a meeting of the Board of Trustees of such school district on the **6th** day of **January, 2017**.


Signature of Board President


Signature of Board Secretary

If the Board of Trustees disapproved of the auditor's report, the reason(s) for disapproving it (are):
(Attach list as necessary)

James E. Rodgers and Company, P.C.

Certified Public Accountants

20 Southwest Third Street • PO Box 669 • Hamlin, Texas 79520 • Tel: 325-576-2356 • Fax: 325-576-3525

E-mail: rodgerscpa@att.net

Member of Texas Society of CPA's and American Institute of CPA's

Richard E. Rodgers CPA • Gerald L. Rodgers CPA

January 6, 2017

Unmodified Report on Financial Statements Issued in Accordance with Government Auditing Standards and a Single Audit Accompanied by Required Supplementary Information, Supplementary Information, and Other Information

Independent Auditor's Report

To the Board of Trustees
Merkel Independent School District
Merkel, Texas 79536

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 Merkel Independent School District (the District) as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Emphasis of Matter

As discussed in notes to the financial statements, in the previous fiscal year (2015), the District adopted new accounting guidance prescribed by GASB #68 for its pension plan a multiple-employer, cost-sharing, defined benefit pension plan that has a special funding situation. Because GASB #68 implements new measurement criteria and reporting provisions, significant information is included in the Government Wide Statements. Exhibit A-1 discloses the District's Net Pension Liability and some deferred resource outflows and deferred resource inflows related to the District's pension plan. Exhibit B-1 includes adjustments to pension expenses. Our opinion is not modified with respect to the matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of proportionate share of the net pension liability and contributions to the Teacher Retirement System, and budgetary comparison information 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 Merkel Independent School District's basic financial statements. The combining and individual non-major fund financial statements, and the Texas Education Agency required information in conformity with laws and regulations of the State of Texas in Exhibits J-1 through J-3, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements, the Texas Education Agency required information in conformity with laws and regulations of the state of Texas in Exhibits J-1 through J-3, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted

James E. Rodgers and Company, P.C.

in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2017, on our consideration of the Merkel Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Merkel Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,



James E. Rodgers and Company, P.C.

Merkel Independent School District

P.O. Box 430
Merkel, Texas 79536

Bryan W. Allen
Superintendent

325-928-5813
325-928-5311
Fax: 325-928-3910

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the administration of **Merkel Independent School District**, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2016. Please read it in conjunction with the independent auditor's report and the District's Basic Financial Statements.

FINANCIAL HIGHLIGHTS

The District's summary financial information for the current fiscal year is as follows:

Highlights of Current Fiscal Year Finances

Government-Wide Net Position at the end of the Year	\$	11,264,476
Government-Wide Revenues for the Current Fiscal Year	\$	13,139,976
Government-Wide Expenses for the Current Fiscal Year	\$	12,943,381
Fund Balance in the General Fund at the End of Year	\$	2,944,859

Changes in the District's Finances from the Previous Fiscal Year

	Increase (Decrease)	
	\$	%
<u>Change in Net Position:</u>		
Change in Government-Wide Total Net Position	\$ 196,595	1.78%
<u>Revenue Changes:</u>		
Change in Government-Wide Total Revenues	\$ 140,592	1.08%
Change in Government-Wide Property Tax Revenues	\$ (197,012)	-3.74%
Change in Government-Wide State Aid Formula Grants	\$ (30,361)	-0.50%
Change in Government-Wide Operating Grants and Contributions	\$ 274,645	19.47%
<u>Expense Changes:</u>		
Change in Government-Wide Total Expenses	\$ 637,551	5.18%
<u>Other Information:</u>		
Change in General Fund Balance	\$ (2,367,896)	-44.57%
Excess (Deficit) of General Fund Actual Revenue over Budgeted Revenue	\$ 194,486	1.78%

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 are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains required supplementary information and other 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 that of a private sector business.

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

The *statement of activities* presents information showing how the District's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods such as uncollected property tax and earned but unused sick and vacation leave.

The government-wide financial statements distinguish functions of the District that are principally supported by taxes, intergovernmental revenues, and user fees & charges (*governmental activities*). The governmental activities of the District include the education of District students and the programs necessary to support such education.

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

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate the comparison between *governmental funds* and *governmental activities*.

The District maintains numerous individual 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 since they are major funds as defined by governmental accounting standards. Data from the other 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 the General Fund. A budgetary comparison schedule has been provided for this fund to demonstrate compliance with this budget. Supplementary budgetary comparison schedules have also been prepared for the Child Nutrition and Debt Service Funds and are included in the other supplementary information section of this report.

Proprietary funds. The District maintains proprietary funds. An *internal service fund* is an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses this internal service fund to account for its workers compensation self-insurance program. Internal service funds are generally considered a *governmental activity* and are included in the government-wide financial statements.

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 maintains student activity accounts as fiduciary funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

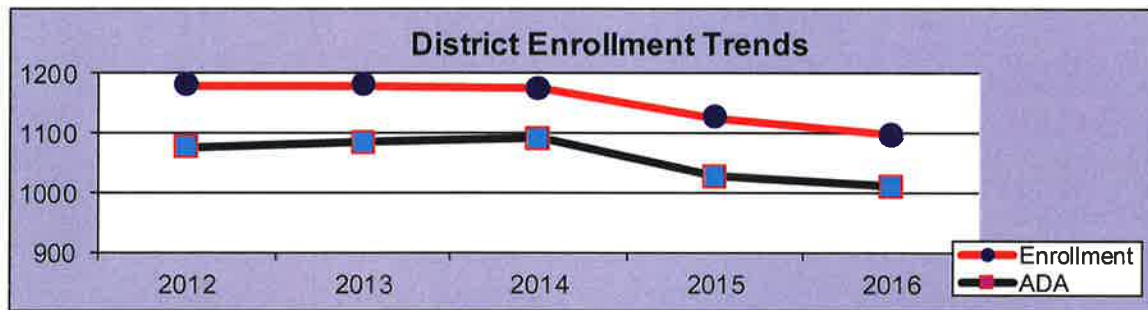
Other information. The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information. In addition, certain information required by the Texas Education Agency and the federal government regarding tax collection and grant expenditures is also presented along with required supplementary information related to the District's contributions to a cost-sharing pension plan with the Teacher Retirement System of Texas.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

State funding for public education in Texas is based upon the District's average daily attendance, thus the District's revenue is highly dependent on enrollment trends. The District receives additional weighted funding for students enrolled in career and technology coursework, gifted and talented, special education, bilingual, and compensatory education programs. The demographics of the District and the types of coursework students pursue are continuing to evolve in the District. The following chart details the enrollment trends of the District.

ENROLLMENT TRENDS

Year	Enrollment	ADA
2012	1181	1077.1
2013	1181	1085.4
2014	1176	1091.7
2015	1127	1028.1
2016	1098	1011.7



The following table indicates the net position of the District at the end of the current and prior fiscal years.

Table I
MERKEL INDEPENDENT SCHOOL DISTRICT
Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2015	2016	2015	2016	2015	2016
Current and other assets	\$ 12,781,165	\$ 5,689,379	\$ -	\$ -	\$ 12,781,165	\$ 5,689,379
Capital assets	14,759,942	22,016,290	-	-	14,759,942	22,016,290
Deferred outflows of resources	262,342	1,248,288	-	-	262,342	1,248,288
Total assets and deferred outflows	\$ 27,803,449	\$ 28,953,957	\$ -	\$ -	\$ 27,803,449	\$ 28,953,957
Long-term liabilities	\$ 14,812,441	\$ 15,569,371	\$ -	\$ -	\$ 14,812,441	\$ 15,569,371
Other liabilities	1,645,449	1,954,759	-	-	1,645,449	1,954,759
Deferred inflows of resources	277,678	165,351	-	-	277,678	165,351
Total liabilities and deferred inflows	\$ 16,735,568	\$ 17,689,481	\$ -	\$ -	\$ 16,735,568	\$ 17,689,481
Net Position:						
Net investment in capital assets	\$ 6,002,929	\$ 8,687,481	\$ -	\$ -	\$ 6,002,929	\$ 8,687,481
Restricted	513,087	622,037	-	-	513,087	622,037
Unrestricted	4,551,865	1,954,958	-	-	4,551,865	1,954,958
Total net position	\$ 11,067,881	\$ 11,264,476	\$ -	\$ -	\$ 11,067,881	\$ 11,264,476

The following table indicates the changes in net position of the District during the current and prior fiscal years.

Table II MERKEL INDEPENDENT SCHOOL DISTRICT Changes in Net Position						
	Governmental Activities		Business-Type Activities		Totals	
	2015	2016	2015	2016	2015	2016
Program Revenues:						
Charges for Services	\$ 95,677	\$ 94,934	\$ -	\$ -	\$ 95,677	\$ 94,934
Operating grants & contributions	1,410,938	1,685,583	-	-	1,410,938	1,685,583
General Revenues:						
Maintenance & operations taxes	4,178,964	4,043,923	-	-	4,178,964	4,043,923
Debt service taxes	1,090,672	1,028,701	-	-	1,090,672	1,028,701
State aid - formula grants	6,081,444	6,051,083	-	-	6,081,444	6,051,083
Grants and contributions not restricted to specific functions	11,450	36,810	-	-	11,450	36,810
Investment earnings	96,361	94,613	-	-	96,361	94,613
Miscellaneous	33,878	104,329	-	-	33,878	104,329
Total Revenues	\$ 12,999,384	\$ 13,139,976	\$ -	\$ -	\$ 12,999,384	\$ 13,139,976
Expenses						
Instruction, curriculum & media services	\$ 6,691,815	\$ 7,286,773	\$ -	\$ -	\$ 6,691,815	\$ 7,286,773
Instructional & school leadership	751,606	731,927	-	-	751,606	731,927
Student support services	910,811	888,022	-	-	910,811	888,022
Food services	564,209	670,212	-	-	564,209	670,212
Extracurricular activities	609,333	596,577	-	-	609,333	596,577
General administration & data processing	797,309	853,014	-	-	797,309	853,014
Community Services	(1,223)	-	-	-	(1,223)	-
Plant maintenance & security	1,339,919	1,330,087	-	-	1,339,919	1,330,087
Interest & fees - long term debt	465,039	387,442	-	-	465,039	387,442
Other business-type activities & intergovernmental	177,012	199,327	-	-	177,012	199,327
Total Expenses	\$ 12,305,830	\$ 12,943,381	\$ -	\$ -	\$ 12,305,830	\$ 12,943,381
Increase in net position before transfers and special items	\$ 693,554	\$ 196,595	\$ -	\$ -	\$ 693,554	\$ 196,595
Transfers	-	-	-	-	-	-
Extraordinary & special items	-	-	-	-	-	-
Prior period adjustment - GASB 68						
Pension Reporting	(1,028,466)	-	-	-	(1,028,466)	-
Net position at 9/1	11,402,793	11,067,881	-	-	11,402,793	11,067,881
Total Net Position	\$ 11,067,881	\$ 11,264,476	\$ -	\$ -	\$ 11,067,881	\$ 11,264,476

Analysis of Change in Government-Wide Net Position

Excess of Revenues Over Expenditures for Governmental Funds	\$ (7,388,095)
Net loss of Internal Service Funds	(11,237)
Current Year Purchases of Capital Assets	7,775,295
Current Year Debt Principal Payments	525,000
Depreciation	(517,794)
Long-Term Debt Proceeds Received	-
Other Modified to Full Accrual Revenue Adjustments	29,897
Net adjustment to pension expense per GASB 68	(216,471)
Change in Government-Wide Net Position	<u>\$ 196,595</u>

THE DISTRICT'S FUNDS

A financial summary of the District's funds for the current year is as follows:

Governmental Fund Financial Statements					
	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Fund	Total
Revenues	\$ 10,800,796	\$ 931,584	\$ 1,054,206	\$ 6,240	\$ 12,792,826
Expenditures	(10,412,411)	(1,121,307)	(945,256)	(7,751,778)	(20,230,752)
Other Financing Sources	49,831	189,723	-	2,616,389	2,855,943
Other Financing Uses	(2,806,112)	-	-	-	(2,806,112)
Net Change in Fund Balance	\$ (2,367,896)	\$ -	\$ 108,950	\$ (5,129,149)	\$ (7,388,095)
Beginning Fund Balance	5,312,755	5,974	507,113	5,129,149	10,954,991
Ending Fund Balance					
All Governmental Funds	\$ 2,944,859	\$ 5,974	\$ 616,063	\$ -	\$ 3,566,896

The District modified its budget several times during the year resulting in a net increase in budgeted expenditures between the original and final budget in the District's General Fund. There was an increase of \$317,000 in budgeted expenditures from the original to the final amended budget. There were significant increases in function 11 instruction transfers out to other funds.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of the current fiscal year, the District had invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This year's major additions and the net change in total capital assets are as follows:

20" Floor Scrubber	\$ 5,148
20" Floor Scrubber	5,148
26" Floor Scrubber	13,221
New Elementary Building	7,751,778
TOTAL	\$ 7,775,295
Total Additions	\$ 7,775,295
Total Deletions	541,976
Net Change	\$ 7,233,319

The new elementary building was substantially complete and being used by the end of the fiscal year.

Debt

The District's long term debt as of the end of the current fiscal year is as follows:

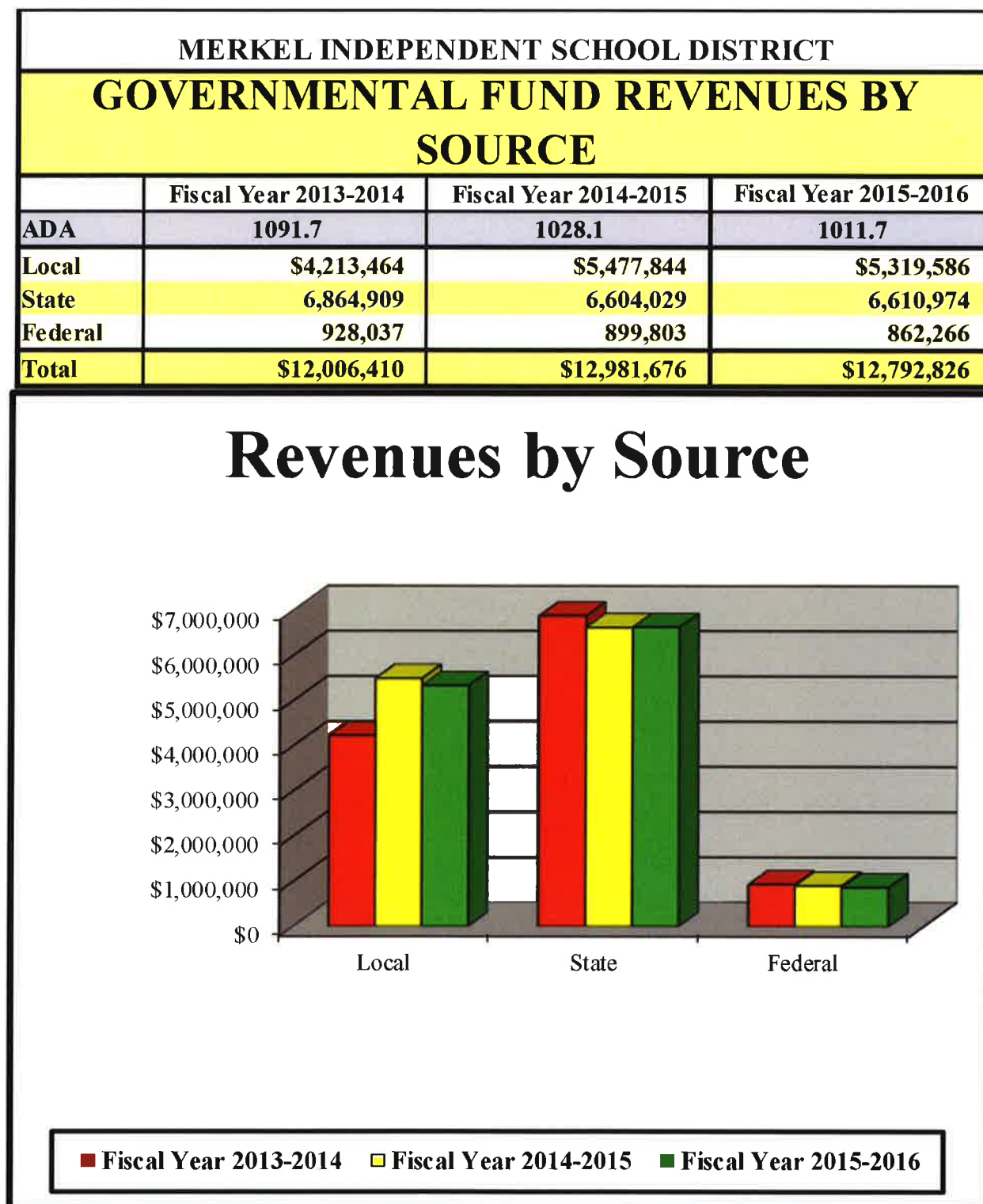
	Interest Rate on Issue	Amounts Original Issue	Interest Current Year	Outstanding End of Fiscal Year	Next Year's Total Principal and Interest Requirement
Series 2014 School Building Bonds	2.00% - 3.625%	9,750,000	284,881	8,995,000	667,181
Series 2015 School Building Bonds	2.00% - 4.00%	3,890,000	134,375	3,745,000	281,475
Totals		\$ 13,640,000	\$ 419,256	\$ 12,740,000	\$ 948,656

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

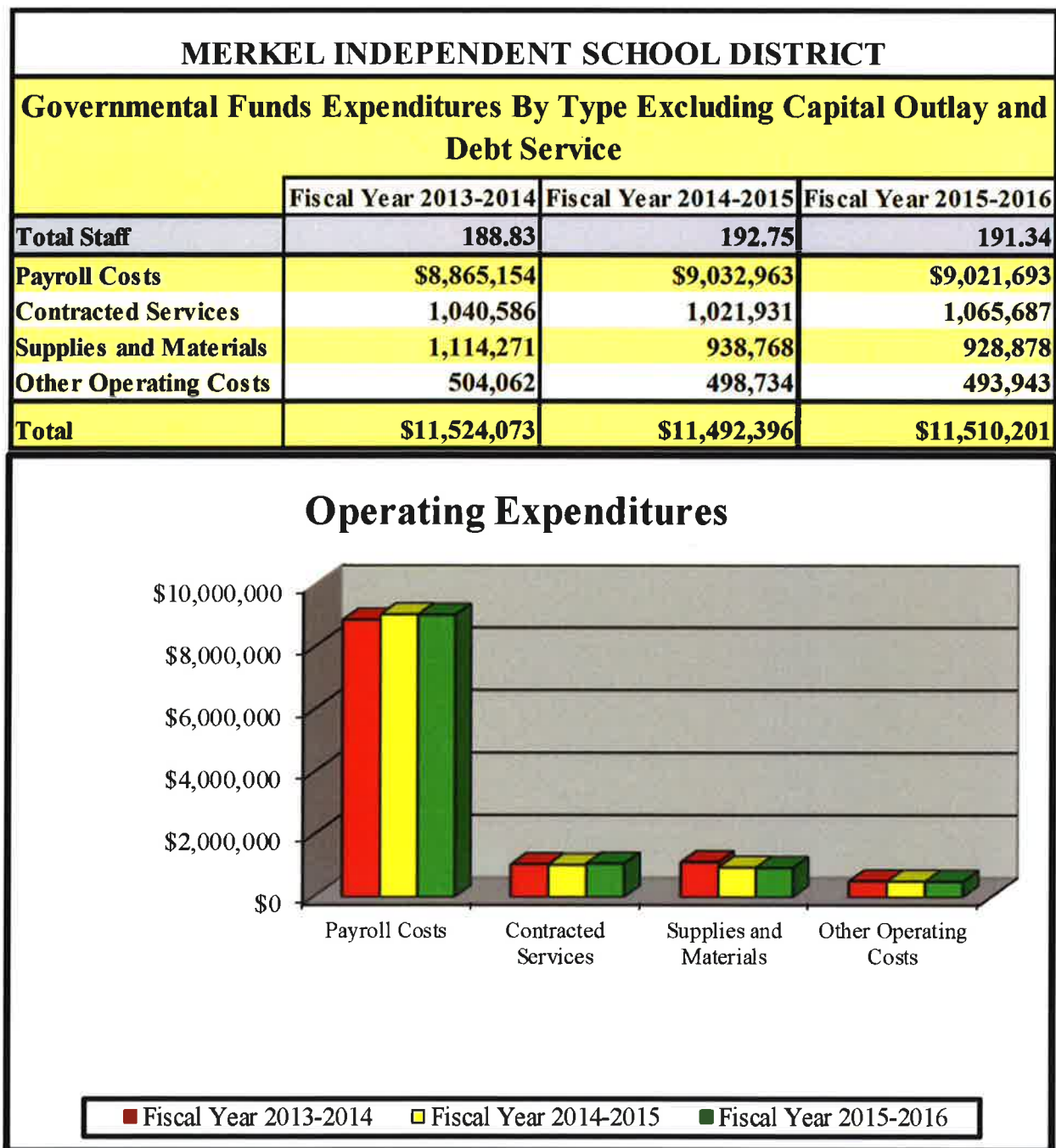
The District's elected and appointed officials considered many factors when setting the next fiscal year budget and tax rates. Those factors included consideration of the local property tax base and expected student population for the coming year. These indicators were taken into account when adopting the General Fund budget for next year. A summary of the next fiscal year budget is as follows:

Fiscal Year 2016 - 2017 Adopted Budget				
	General Fund	Food Services Fund	Debt Service Fund	TOTALS
Revenues	\$ 10,365,258	\$ 449,300	\$ 1,054,445	\$ 11,869,003
Expenditures	(10,273,816)	(534,300)	(948,646)	(11,756,762)
Other Financing Sources	-	85,000	-	85,000
Other Financing Uses	(85,000)	-	-	(85,000)
Net Change in Fund Balance	\$ 6,442	\$ -	\$ 105,799	\$ 112,241
Beginning of Year Fund Balance	2,944,859	4,129	616,063	3,565,051
Projected End of Year Fund Balance	\$ 2,951,301	\$ 4,129	\$ 721,862	\$ 3,677,292

The following graph indicates the District's revenues by source for the last three years.



The following graph indicates the District's operating expenditures by object for the last three years.



CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at **Merkel Independent School District, P.O. Box 430, Merkel, Texas 79536; (325) 928-2004** or visit us at our website at <http://www.merkel.esc14.net>.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT A-1

Data	Primary Government
Control	Governmental
Codes	Activities
<hr/>	
ASSETS	
1110 Cash and Cash Equivalents	\$ 4,012,055
1120 Current Investments	1,117,305
1220 Property Taxes Receivable (Delinquent)	223,632
1230 Allowance for Uncollectible Taxes	(55,908)
1240 Due from Other Governments	391,261
1290 Other Receivables, net	1,034
Capital Assets:	
1510 Land	207,122
1520 Buildings, Net	21,289,805
1530 Furniture and Equipment, Net	519,363
1000 Total Assets	<hr/> 27,705,669 <hr/>
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS	1,248,288
1700 Total Deferred Outflows of Resources	<hr/> 1,248,288 <hr/>
LIABILITIES	
2110 Accounts Payable	980,656
2150 Payroll Deductions & Withholdings	102
2160 Accrued Wages Payable	360,113
2180 Due to Other Governments	552,169
2200 Accrued Expenses	61,719
Noncurrent Liabilities	
2501 Due Within One Year	558,085
2502 Due in More Than One Year	12,788,809
2540 Net Pension Liability (District's Share)	2,222,477
2000 Total Liabilities	<hr/> 17,524,130 <hr/>
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	165,351
2600 Total Deferred Inflows of Resources	<hr/> 165,351 <hr/>
NET POSITION	
3200 Net Investment in Capital Assets	8,687,481
3820 Restricted for Federal and State Programs	5,974
3850 Restricted for Debt Service	616,063
3900 Unrestricted	1,954,958
3000 Total Net Position	<hr/> \$ 11,264,476 <hr/>

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

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

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 7,016,889	\$ 6,345	\$ 1,202,655	\$ (5,807,889)
12 Instructional Resources and Media Services	183,970	-	4,763	(179,207)
13 Curriculum and Staff Development	85,914	-	1,595	(84,319)
23 School Leadership	731,927	-	22,108	(709,819)
31 Guidance, Counseling and Evaluation Services	299,801	-	8,541	(291,260)
33 Health Services	84,964	-	2,709	(82,255)
34 Student (Pupil) Transportation	503,257	-	7,964	(495,293)
35 Food Services	670,212	70,246	387,323	(212,643)
36 Extracurricular Activities	596,577	17,993	8,901	(569,683)
41 General Administration	425,542	-	5,953	(419,589)
51 Facilities Maintenance and Operations	1,320,087	350	21,320	(1,298,417)
52 Security and Monitoring Services	10,000	-	-	(10,000)
53 Data Processing Services	427,472	-	11,751	(415,721)
72 Debt Service - Interest on Long Term Debt	386,442	-	-	(386,442)
73 Debt Service - Bond Issuance Cost and Fees	1,000	-	-	(1,000)
93 Payments related to Shared Services Arrangements	199,327	-	-	(199,327)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 12,943,381	\$ 94,934	\$ 1,685,583	(11,162,864)

Data Control Codes		General Revenues:	
		Taxes:	
MT	Property Taxes, Levied for General Purposes		4,043,923
DT	Property Taxes, Levied for Debt Service		1,028,701
SF	State Aid - Formula Grants		6,051,083
GC	Grants and Contributions not Restricted		36,810
IE	Investment Earnings		94,613
MI	Miscellaneous Local and Intermediate Revenue		104,329
TR	Total General Revenues		11,359,459
CN	Change in Net Position		196,595
NB	Net Position - Beginning		11,067,881
NE	Net Position--Ending		\$ 11,264,476

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
ASSETS			
1110 Cash and Cash Equivalents	\$ 2,648,478	\$ 615,206	\$ 707,935
1120 Investments - Current	1,117,305	-	-
1220 Property Taxes - Delinquent	193,043	30,589	-
1230 Allowance for Uncollectible Taxes (Credit)	(48,261)	(7,647)	-
1240 Receivables from Other Governments	316,652	857	-
1260 Due from Other Funds	34,553	-	216,389
1290 Other Receivables	-	-	-
1000 Total Assets	<u>\$ 4,261,770</u>	<u>\$ 639,005</u>	<u>\$ 924,324</u>
LIABILITIES			
2110 Accounts Payable	\$ 55,310	\$ -	\$ 924,324
2150 Payroll Deductions and Withholdings Payable	102	-	-
2160 Accrued Wages Payable	326,110	-	-
2170 Due to Other Funds	232,327	-	-
2180 Due to Other Governments	552,169	-	-
2200 Accrued Expenditures	6,111	-	-
2000 Total Liabilities	<u>1,172,129</u>	<u>-</u>	<u>924,324</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	144,782	22,942	-
2600 Total Deferred Inflows of Resources	<u>144,782</u>	<u>22,942</u>	<u>-</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	-	-
3480 Retirement of Long-Term Debt	-	616,063	-
Committed Fund Balance:			
3510 Facilities Improvements	750,000	-	-
3540 Fiscal Stabilization	500,000	-	-
3600 Unassigned Fund Balance	1,694,859	-	-
3000 Total Fund Balances	<u>2,944,859</u>	<u>616,063</u>	<u>-</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 4,261,770</u>	<u>\$ 639,005</u>	<u>\$ 924,324</u>

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

Other Funds		Total Governmental Funds	
\$	2,509	\$	3,974,128
	-		1,117,305
	-		223,632
	-		(55,908)
	73,752		391,261
	572		251,514
	1,034		1,034
\$	77,867	\$	5,902,966
\$	1,022	\$	980,656
	-		102
	34,003		360,113
	34,553		266,880
	-		552,169
	2,315		8,426
	71,893		2,168,346
	-		167,724
	-		167,724
	5,974		5,974
	-		616,063
	-		750,000
	-		500,000
	-		1,694,859
	5,974		3,566,896
\$	77,867	\$	5,902,966

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

Total Fund Balances - Governmental Funds	\$ 3,566,896
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance for workers compensation, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.	-
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the net cost of these assets (historical cost less accumulated depreciation) is included in net position. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to decrease net position.	855,234
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the current year capital outlays and debt principal payments is to increase net position.	8,300,295
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68, a Deferred Resource Inflow related to TRS, and a Deferred Resource Outflow related to TRS. This amounted to a decrease in Net Position.	(1,139,540)
5 The current year depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(517,794)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.	199,385
19 Net Position of Governmental Activities	\$ 11,264,476

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	60 Capital Projects
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 4,213,041	\$ 1,028,235	\$ 6,240
5800 State Program Revenues	6,580,109	25,971	-
5900 Federal Program Revenues	7,646	-	-
5020 Total Revenues	10,800,796	1,054,206	6,240
EXPENDITURES:			
Current:			
0011 Instruction	5,827,889	-	-
0012 Instructional Resources and Media Services	179,754	-	-
0013 Curriculum and Instructional Staff Development	83,351	-	-
0023 School Leadership	705,941	-	-
0031 Guidance, Counseling and Evaluation Services	290,475	-	-
0033 Health Services	82,635	-	-
0034 Student (Pupil) Transportation	373,361	-	-
0035 Food Services	5,669	-	-
0036 Extracurricular Activities	531,809	-	-
0041 General Administration	416,445	-	-
0051 Facilities Maintenance and Operations	1,295,331	-	-
0052 Security and Monitoring Services	10,000	-	-
0053 Data Processing Services	410,424	-	-
Debt Service:			
0071 Principal on Long Term Debt	-	525,000	-
0072 Interest on Long Term Debt	-	419,256	-
0073 Bond Issuance Cost and Fees	-	1,000	-
Capital Outlay:			
0081 Facilities Acquisition and Construction	-	-	7,751,778
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	199,327	-	-
6030 Total Expenditures	10,412,411	945,256	7,751,778
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	388,385	108,950	(7,745,538)
OTHER FINANCING SOURCES (USES):			
7912 Sale of Real and Personal Property	49,831	-	-
7915 Transfers In	-	-	2,616,389
8911 Transfers Out (Use)	(2,806,112)	-	-
7080 Total Other Financing Sources (Uses)	(2,756,281)	-	2,616,389
1200 Net Change in Fund Balances	(2,367,896)	108,950	(5,129,149)
0100 Fund Balance - September 1 (Beginning)	5,312,755	507,113	5,129,149
3000 Fund Balance - August 31 (Ending)	\$ 2,944,859	\$ 616,063	\$ -

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

Other Funds		Total Governmental Funds	
\$	72,070	\$	5,319,586
	4,894		6,610,974
	854,620		862,266
	931,584		12,792,826
	479,871		6,307,760
	-		179,754
	-		83,351
	-		705,941
	-		290,475
	-		82,635
	1,226		374,587
	640,210		645,879
	-		531,809
	-		416,445
	-		1,295,331
	-		10,000
	-		410,424
	-		525,000
	-		419,256
	-		1,000
	-		7,751,778
	-		199,327
	1,121,307		20,230,752
	(189,723)		(7,437,926)
	-		49,831
	189,723		2,806,112
	-		(2,806,112)
	189,723		49,831
	-		(7,388,095)
	5,974		10,954,991
\$	5,974	\$	3,566,896

MERKEL INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2016

Total Net Change in Fund Balances - Governmental Funds	\$ (7,388,095)
The District uses internal service funds to charge the costs of certain activities, such as self-insurance for workers compensation, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase net position.	(11,237)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the current year capital outlays and debt principal payments is to decrease net position.	8,300,295
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.	(517,794)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.	29,897
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2015 caused the change in the ending net position to increase. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability for the District. This caused a decrease in the change in net position. The District's proportionate share of the TRS pension expense on the plan as a whole had to be recorded as an expense which also resulted in a decrease in change in net position. The impact of all of these is to decrease the change in net position.	(216,471)
Change in Net Position of Governmental Activities	\$ 196,595

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

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

	Governmental Activities -
	Internal Service Fund
ASSETS	
Current Assets:	
Cash and Cash Equivalents	\$ 37,927
Due from Other Funds	15,366
Total Assets	53,293
LIABILITIES	
Current Liabilities:	
Accrued Expenses	53,293
Total Liabilities	53,293
NET POSITION	
Unrestricted Net Position	-
Total Net Position	\$ -

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

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

	Governmental Activities -
	Internal Service Fund
OPERATING REVENUES:	
Local and Intermediate Sources	\$ 29,942
Total Operating Revenues	29,942
OPERATING EXPENSES:	
Professional and Contracted Services	16,532
Other Operating Costs	24,695
Total Operating Expenses	41,227
Operating Income (Loss)	(11,285)
NONOPERATING REVENUES (EXPENSES):	
Earnings from Temporary Deposits & Investments	48
Total Nonoperating Revenues (Expenses)	48
Change in Net Position	(11,237)
Total Net Position - September 1 (Beginning)	11,237
Total Net Position - August 31 (Ending)	\$ -

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

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

	Governmental Activities -
	Internal Service Fund
<u>Cash Flows from Operating Activities:</u>	
Cash Received from Assessments - Other Funds	\$ 59,887
Cash Payments for Workers Comp Claims	(9,409)
Cash Payments for Administrative Fees	(16,532)
Cash Payments for Excess Cost Insurance	(7,329)
Net Cash Provided by Operating Activities	26,617
<u>Cash Flows from Investing Activities:</u>	
Interest and Dividends on Investments	48
Net Increase in Cash and Cash Equivalents	26,665
Cash and Cash Equivalents at Beginning of Year	11,262
Cash and Cash Equivalents at End of Year	\$ 37,927
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>	
<u>Provided by Operating Activities:</u>	
Operating Income (Loss):	\$ (11,285)
Effect of Increases and Decreases in Current Assets and Liabilities:	
Decrease (increase) in Receivables	32,958
Increase (decrease) in Accrued Claims Liability	4,944
Net Cash Provided by Operating Activities	\$ 26,617
<u>Reconciliation of Total Cash and Cash Equivalents:</u>	
Cash and Cash Equivalents on Balance Sheet	\$ 37,927
Pooled Cash and Cash Equivalents on Balance Sheet	-
Total Cash and Cash Equivalents	\$ 37,927

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

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

	Private Purpose Trust Funds	Agency Funds
ASSETS		
Cash and Cash Equivalents	\$ 121,420	\$ 104,962
Total Assets	<u>121,420</u>	<u>\$ 104,962</u>
LIABILITIES		
Due to Student Groups	30	\$ 104,962
Total Liabilities	<u>30</u>	<u>\$ 104,962</u>
NET POSITION		
Restricted for Other Purposes	<u>121,390</u>	
Total Net Position	<u>\$ 121,390</u>	

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

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

	Private Purpose Trust Funds
ADDITIONS:	
Local and Intermediate Sources	\$ 749
Net Loss on Investments	(3,338)
Total Additions	(2,589)
Change in Net Position	(2,589)
Total Net Position - September 1 (Beginning)	123,979
Total Net Position - August 31 (Ending)	\$ 121,390

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

MERKEL INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Merkel Independent School District (the "District") is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the "Board") elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles accepted in the United States of America as applied to governmental entities. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The District also complies with the requirements of the appropriate version of Texas Education Agency's Financial Accountability System Resource Guide (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and has the authority to make decisions, appoint administrators and managers, and significantly influence operations. For financial reporting purposes, the accompanying financial statements include all of the operations over which the District is financially accountable. The District applies current GASB criteria to potential component units and other related entities in evaluating the potential inclusion in the reporting entity. The criteria for inclusion in the reporting entity involves whether the District or its officials appoint a voting majority of an organization's governing body, and is either able to impose its will on the organization or there is a potential for the organization to provide specific financial benefits or to impose specific financial burdens on the District such that exclusion of such information would cause the District's financial statements to be incomplete. For the current fiscal year, the reporting entity of the District does not include any component units.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the **Merkel Independent School District** non-fiduciary activities with most of the inter-fund activities removed. *Governmental activities* include programs supported primarily by taxes, state foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If revenue is not program revenue, it is general revenue used to support all of the District's functions. Taxes are always general revenues.

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are non-operating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are non-operating.

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

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

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

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

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

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

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements.

With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the fund Statement of Net Position. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

- General Fund** – The general fund is the District's primary operating fund. This fund accounts for all financial resources except those required to be accounted for in another fund.
- Capital Projects Fund** - The District did maintain a major capital project governmental fund during the current year. A capital project funded by bonds issued for construction of an elementary school building was opened during the 2015 fiscal year and was substantially complete at the end of this fiscal year.
- Debt Service Fund** - The District did maintain a major debt service governmental funds during the current year.

The District does not report any major enterprise funds.

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

Governmental Funds:

- Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund and sometimes unused balances must be returned to the grantor at the close of specified project periods.
- Debt Service Funds** – The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund when applicable.
- Capital Projects Funds** – Proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund when applicable.
- Permanent Funds** – The District accounts for donations which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the District's programs when applicable.

Proprietary Funds:

Enterprise Funds – The District's activities for which outside users are charged a fee roughly equal to the cost of providing the goods or services of those activities are accounted for in an enterprise fund when applicable.

Internal Service Funds – Revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis (such as workers' compensation) are accounted for in an internal service fund when applicable.

Fiduciary Funds:

Private Purpose Trust Funds – The District accounts for donations for which the donor has stipulated that both the principal and the income may be used for purposes that benefit parties outside the District. When applicable, the District maintains a private purpose trust fund to provide scholarships for students that have graduated from the District.

Agency Funds – The District accounts for resources held for others in a custodial capacity in agency funds including funds used to account for student activities.

Transactions 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". While these balances are reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities are eliminated so that only the net amount is included in the governmental activities column. Similarly, balances between the funds included in any business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in / out. While reported in the fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as internal balances in the business-type activities column.

E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have maturity of three months or less when purchased.
2. The District reports inventories of supplies using the first-in, first-out inventory cost method. The supplies include consumable maintenance, instructional, office, athletic, and transportation items. Under the purchase method, supplies are recorded as expenditures when they are purchased. Inventories of food commodities are recorded at market values supplied by the Department of Agriculture. Although commodities are received at no cost, their fair market value is supplied by the Department of Agriculture and recorded as revenue and expenditures when received. Material inventories (if any) including food commodities are recorded as an asset and a corresponding amount of expenditures are reduced at year-end.

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

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

4. It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.
5. Capital assets, which include land, buildings, furniture and equipment and infrastructure assets are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

ASSETS	YEARS
Buildings	40
Buildings and Improvements	40
Infrastructure	40
Vehicles	10
Office Equipment	10
Computer Equipment	10

6. Since Internal Service Funds in the District support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the District as a whole.
7. Restricted assets, if applicable, of the District are limited to cash and certificates of deposit which have been gifted to the District with the stipulation that only the earnings are available

for current and future scholarship recipients.

8. The Districts that participate in self-funded workers' compensation programs execute inter-local agreements that define the responsibilities of the parties. The program, if applicable, provides statutory workers' compensation benefits to its members and their injured employees.
9. Net Position and Fund Balances:

Government-wide and Proprietary Fund Net Position:

Government-wide and proprietary fund net position is divided into three components:

- Net investment in capital assets—consist of the historical cost of capital assets less accumulated depreciation and less any debt that remains outstanding that was used to finance those assets plus deferred outflows of resources less deferred inflows of resources related to those assets.
- Restricted net position—consist of assets that are restricted by the District's creditors (for example, through debt covenants), by the state enabling legislation (through restrictions on shared revenues), by grantors (both federal and state), and by other contributors.
- Unrestricted—all other net position is reported in this category.

Governmental Fund Balances:

In the governmental fund financial statements, fund balances are classified as follows:

- Nonspendable—Amounts that cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.
- Restricted—Amounts that can be spent only for specific purposes because of the District's state or federal laws, or externally imposed conditions by grantors or creditors.
- Committed—Amounts that can be used only for specific purposes determined by a formal action by Board of Trustees' ordinance.
- Assigned—Amounts that are designated by the Superintendent for a particular purpose but are not spendable until a budget ordinance is passed or there is a majority vote approval (for capital projects or debt service) by the Board of Trustees.
- Unassigned—All amounts not included in other spendable classification

10. Use of Restricted Resources:

When an expenditure/expense is incurred that can be paid using either restricted or unrestricted resources (net position), the District's policy is to first apply the expenditure/expense toward restricted resources and then toward unrestricted resources. In governmental funds, the District's policy is to first apply the expenditure toward restricted fund balance and then to other, less-restrictive classifications—committed and then assigned fund balances before using unassigned fund balances.

11. As of the end of this fiscal year, the District prospectively applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Market Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.
12. Investment income reported in one fund has not been assigned directly to another fund by the District.
13. The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency (TEA) in the *Financial Accountability System Resource Guide*. Texas Education

Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide database for policy development and funding plans.

14. **Deferred Outflows of Resources:** The District reports decreases in net assets that relate to future periods as deferred outflows of resources in a separate section of its government-wide and proprietary funds statements of net position. There is no deferred outflow of resources reported in this year's financial statements. No deferred outflows of resources affect the governmental funds financial statements in the current year.
15. **Deferred Inflow of Resources:** The District's governmental funds report a separate section for deferred inflows of resources. This separate financial statement element reflects an increase in net assets that applies to a future period(s). The District will not recognize the related revenues until a future event occurs. The District has only one type of item which occurs because governmental fund revenues are not recognized until available (collected not later than 60 days after the end of the District's fiscal year) under the modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, deferred property taxes and grants are reported in the governmental funds balance sheet. The District did not have deferred inflows of resources to report in its government-wide or proprietary fund financial statements for the current year.
16. **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.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

Capital Assets at the Beginning of the Year	Historical Cost	Accumulated Depreciation	Net Value at Beginning of Year	Change in Net Position
Land	\$ 207,122	\$ -	\$ 207,122	
Buildings and Improvements	13,319,703	(8,467,963)	4,851,740	
Furniture and Equipment	2,690,667	(2,030,438)	660,229	
Property under Capital Lease	-	-	-	
Construction in Progress	9,040,851	-	9,040,851	
Change in Net Position				\$ 14,759,942

Long-term Liabilities at the Beginning of the Year	Payable at Beginning of Year	
Bonds Payable	\$ 13,265,000	
Add Unamortized Bond Premium	621,163	
Notes and Capital Leases Payable	-	
Accrued Interest - Bonds Payable	18,545	
Change in Net Position		13,904,708
Net Adjustment to Net Position		\$ 855,234

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net position balance and the change in net position shown in Exhibit C-2 and Exhibit C-4. The details of this adjustment are as follows:

	Amount	Adjustments To Changes in Net Position	Adjustments to Net Position
Current Year Capital Outlay			
Land	\$ -		
Buildings & Improvements	7,751,778		
Furniture & Equipment	23,517		
Construction in Progress	-		
Total Capital Outlay	<u>7,775,295</u>	7,775,295	7,775,295
Debt Principal Payments			
Bond Principal	525,000		
Note Principal Payments	-		
Capital Lease Payments	-		
Other Adjustments	-		
Total Principal Payments	<u>525,000</u>	525,000	525,000
Total Adjustment to Net Position		\$ 8,300,295	\$ 8,300,295

Another element of the reconciliation on Exhibits C-2 and C-4 are described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details of this adjustment are as follows:

	Amount	Adjustments to Change in Net Position	Adjustments to Net Position
Adjustments to Revenue, Unavailable Revenue, and Beginning Net Position:			
Beginning of Year Unavailable Tax Revenue	\$ 169,487	\$ -	\$ 169,487
Modified to Full Accrual Property Tax Adjustments	(1,763)	(1,763)	(1,763)
Other Revenue/Expense Adjustments	-	-	-
Reclassify Proceeds of Bonds, Loans & Capital Leases:			
New Bond Issue	-	-	-
Discount (Premium) on Issuance of Bonds	-	-	-
New Loans / Capital Leases Issued	-	-	-
Reclassify Certain Expenditures to Full Accrual From Modified Accrual:			
Adjust Interest Expense on Long-term Debt	460	460	460
Amortization of Bond Premium	32,354	32,354	32,354
Basis Remaining for Capital Assets Disposed	1,153	(1,153)	(1,153)
Totals		\$ 29,897	\$ 199,385

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund (if applicable) and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports are in the J Exhibits as reported in the required Texas Education Agency Exhibits.

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

1. Prior to August 20, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. Significant amendments were made in the instruction and transportation function.

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

	End of Year Fund Balance
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ 4,129
Non-appropriated Budget Funds	1,845
All Special Revenue Funds	\$ 5,974

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The District did not have an excess of expenditures over appropriations for any functions that were material to the financial statements in legally required budgeted funds for the current year.

C. DEFICIT FUND EQUITY

The District did not incur a deficit fund balance in any fund during the current fiscal year.

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

The carrying amount of the District's cash and temporary investments at the end of the fiscal year follows:

CASH AND INVESTMENTS - BY ACCOUNT TYPE	End of Fiscal Year
Cash in Bank - Including Money Market Accounts	\$ 3,624,372
Certificates of Deposit	614,066
Investment Pools	1,117,305
Total Cash and Investments	\$ 5,355,743

CASH AND INVESTMENTS - BY FUND	End of Fiscal Year
Cash and Investments - General Fund	\$ 3,765,783
Cash and Investments - Major Capital Projects Fund	707,935
Cash and Investments - Major Debt Service Fund	615,206
Cash and Investments - Non-Major Governmental Funds	2,509
Cash and Investments - Internal Service	37,927
Cash and Investments - Agency	104,962
Cash and Investments - Private Purpose Trusts	121,420
Cash and Investments - Other	-
Total Cash and Investments	\$ 5,355,743

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits: State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. The District's cash deposits at year end and at the date of the highest cash balance were entirely covered by FDIC insurance and/or pledged collateral or bond held by the District's agent bank in the District's name, and therefore, the District was not exposed to custodial credit risk during the current year.

Foreign Currency Risk: The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by (state an appropriate policy, such as, limiting all deposits denominated in a foreign currency to less than 5% of all deposits.)

As of the end of the current fiscal year, the following are the District's cash and cash equivalents with respective maturities and credit rating:

Type of Deposit for Cash and Cash Equivalents	Fair Value	%	Maturity in less than 1 year	Maturity in 1 - 10 years	Maturity in Over 10 Years	Credit Rating
Cash	\$ 3,624,372	67.67%	\$ 3,624,372	\$ -	\$ -	n/a
Money markets and FDIC Insured Accounts	614,066	11.47%	614,066	-	-	n/a
Investment Accounts:						
Fixed Income Securities	1,087,983	20.31%	-	902,824	185,159	AAA
Money market (FDIC Insured)	29,322	0.55%	29,322	-	-	n/a
Total Cash and Cash Equivalents	\$ 5,355,743	100.00%	\$ 4,267,760	\$902,824	\$ 185,159	

Investments

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

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

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) No load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency

obligations approved by the Texas Public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing investments for the District are specified below:

Credit Risk: To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in (list investments covered by the district's credit risk policy, such as commercial paper, corporate bonds, mutual bond funds) to the top (or top 2 or 3) ratings issued by nationally recognized statistical rating organizations (NRSROs). As of the current fiscal year, the district's investments in (category such as commercial paper) were rated (give appropriate information, for example, A1 by Standard & Poor's, F-1 by Fitch Ratings, etc.) (If a credit quality disclosure is required and the investment is unrated, the disclosure should indicate that fact.)

Custodial Credit Risk for Investments: To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party the District requires counterparties to register the securities in the name of the district and hand them over to the District or its designated agent. This includes securities in securities lending transactions. All of the securities are in the District's name and held by the District or its agent.

Concentration of Credit Risk: To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%.

Interest Rate Risk: To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires (specify some policy guideline such as "at least half of the investment portfolio to have maturities of less than one year on a weighted average maturity basis").

Foreign Currency Risk for Investments: The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by avoiding all investments denominated in a foreign currency.

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

As of the end of the current fiscal year, the District had no investments subject to the fair value measurement.

The District also has no investments measured at the Net Asset Value (NAV) per Share (or its equivalent).

B. PROPERTY TAXES

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

C. DELINQUENT TAXES RECEIVABLE

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible tax receivables within the General and Debt Service Funds are based on historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

D. INTERFUND BALANCES AND TRANSFERS

Inter-fund balances at year end consisted of the following amounts:

FUND	Due From Other Funds	Due To Other Funds
General Fund		
Major Governmental Funds	\$ -	\$ 216,389
Non-major Governmental Funds	34,553	572
Internal Service Funds	-	15,366
Total General Fund	<u>\$ 34,553</u>	<u>\$ 232,327</u>
Major Capital Projects Fund		
General Fund	\$ 216,389	\$ -
Non-major Governmental Funds	-	-
Internal Service Funds	-	-
Total Major Governmental Funds	<u>\$ 216,389</u>	<u>\$ -</u>
Non-major Governmental Funds		
General Fund	\$ 572	\$ 34,553
Other Major Governmental Funds	-	-
Internal Service Funds	-	-
Total Non-major Governmental Funds	<u>\$ 572</u>	<u>\$ 34,553</u>
Internal Service Funds		
General Fund	\$ 15,366	\$ -
Major Governmental Fund	-	-
Non-major Governmental Funds	-	-
Total Internal Service Funds	<u>\$ 15,366</u>	<u>\$ -</u>
Total Interfund Receivables / Payables	<u>\$ 266,880</u>	<u>\$ 266,880</u>

The purpose of the interfund receivables and payables are as follows:

- The \$572 amount due from the General Fund to the Food Service Fund represents an immaterial correction of an error during a prior year.
- The \$15,366 receivable / payable between the General Fund and the Internal Service Fund represents the unfunded amount of workers compensation incurred but not reported or paid claims liabilities in the Internal Service Fund as of the end of year. The District's policy is to actually fund the payment of the workers compensation claims when payment is requested by the external claims administrator.
- The \$34,553 receivable / payable between the General Fund and nonmajor governmental funds represent short term advances resulting from pooled cash accounts.

Inter-fund transfers for the current year consisted of the following amounts:

FUND	Transfers In	Transfers Out
General Fund		
Major Capital Projects Fund	\$ -	\$ 2,616,389
Non-major Governmental Funds	-	189,723
All Others	-	-
Total General Fund	\$ -	\$ 2,806,112
Major Capital Projects Fund		
General Fund	\$ 2,616,389	\$ -
Non-major Governmental Funds	-	-
All Others	-	-
Total Major Governmental Funds	\$ 2,616,389	\$ -
Non-major Governmental Funds		
General Fund	\$ 189,723	\$ -
Other Major Governmental Funds	-	-
All Others	-	-
Total Non-major Governmental Funds	\$ 189,723	\$ -
Total Interfund Transfers	\$ 2,806,112	\$ 2,806,112

The purpose of the interfund transfers were as follows:

- \$189,723 was transferred from the General Fund to the Food Service Fund to supplement operating costs in excess of reimbursements received from the National School Breakfast and Lunch programs and food sales revenues.
- \$2,616,389 was transferred from the General Fund to the Capital Projects Fund to cover the excess costs of the new elementary building.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at year end were as follows:

	Property Taxes	Other Governments	Due From Other Funds	Other	Total Receivables
Governmental Activities:					
General Fund	\$ 193,043	\$ 316,652	\$ 34,553		\$ 544,248
Major Debt Service Fund	30,589	\$ 857			
Major Capital Projects Fund	-	-	216,389	-	216,389
Other Major Governmental Fund	-	-	-	-	-
Non-major Governmental Funds	-	73,752	572	1,034	75,358
Internal Service Funds	-	-	15,366	-	15,366
Total Governmental Activities	\$ 223,632	\$ 391,261	\$ 266,880	\$ 1,034	882,807
Amounts not scheduled for collection during subsequent year	\$ -	\$ -	\$ -	\$ -	\$ -

Payables at year end were as follows:

	Accounts Payable	Accrued Wages Payable	Payroll Withholding / Benefits Payable	Due To Other Funds	Due To Other Govt.	Other	Total Payables
Governmental Activities:							
General Fund	\$ 55,310	\$ 326,110	\$ 6,213	\$ 232,327	\$ 552,169	\$ -	\$ 1,172,129
Major Governmental Fund - Capital Projects	924,324	-	-	-	-	-	924,324
Non-major Governmental Funds	1,022	34,003	2,315	34,553	-	-	71,893
Internal Service Funds	-	-	-	-	-	53,293	53,293
Total Governmental Type Activities	\$ 980,656	\$ 360,113	\$ 8,528	\$ 266,880	\$ 552,169	\$ 53,293	\$ 2,221,639
Amounts not scheduled for payment during subsequent year	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the District for the current year was as follows:

Primary Government				
	Beginning Balance	Additions	Retirements & Adjustments	Ending Balance
Governmental Activities:				
<u>Capital Assets Not Being Depreciated:</u>				
Land	\$ 207,122	\$ -	\$ -	\$ 207,122
Construction in Progress	9,040,851	-	(9,040,851)	-
<u>Capital Assets Being Depreciated:</u>				
Buildings and Improvements	13,319,703	7,751,778	8,522,327	29,593,808
Furniture and Equipment	2,690,667	23,517	(23,452)	2,690,732
Property under Capital Leases	-	-	-	-
Infrastructure	-	-	-	-
Totals at Historic Cost	\$ 25,258,343	\$ 7,775,295	\$ (541,976)	\$ 32,491,662
Less Accumulated Depreciation for:				
Buildings and Improvements	\$ 8,467,963	\$ 354,564	\$ (518,524)	\$ 8,304,003
Furniture and Equipment	2,030,438	163,230	(22,299)	2,171,369
Property under Capital Leases	-	-	-	-
Infrastructure	-	-	-	-
Total Accumulated Depreciation	\$ 10,498,401	\$ 517,794	\$ (540,823)	\$ 10,475,372
Governmental Activities Capital Assets-Net	\$ 14,759,942	\$ 7,257,501	\$ (1,153)	\$ 22,016,290
Depreciation expense was charged to governmental functions as follows:				
Instruction				\$ 293,580
Student (Pupil) Transportation				122,496
Food Services				8,700
Extracurricular Activities				55,652
General Administration				625
Plant Maintenance and Operations				30,895
Security and Monitoring Service				-
Data Processing Services				5,846
In addition, depreciation on capital assets held by the District's Internal Service Fund(s) is charged to the various functions based on their usage of the assets				-
Total Depreciation Expense				\$ 517,794

The District has no capital assets that are not being depreciated as of the current fiscal year end except for land as listed previously.

G. SHORT-TERM DEBT PAYABLE

The District accounts for short-term debts for maintenance purposes through the General Fund. Short-term debts include notes made in accordance with the provisions of the Texas Education Code Section 45.108. The proceeds from loans are shown in the governmental fund financial statements as Other Resources and principal payments are shown as Other Uses. As shown by the following table, the District has no short-term debt payable.

Date of Issue/ Maturity	Description	Beginning Balance	Amount Issued	Amount Redeemed	Ending Balance
	None	\$ -	\$ -	\$ -	\$ -

H. BONDS AND LONG-TERM NOTES PAYABLE

Bonded indebtedness of the District is reflected in the General Long-Term Debt Account Group. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. A summary of changes in general long-term debt for the current year is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Payable Amounts Outstanding Begin Year	Issued	Retired	Payable Amounts Outstanding End of Year
2014 School Building Bonds	2.0% - 3.625%	9,750,000	284,881	9,375,000	-	380,000	8,995,000
2015 School Building Bonds	2.0% - 4.0%	3,890,000	134,375	3,890,000	-	145,000	3,745,000
TOTAL		\$ 13,640,000	\$ 419,256	\$ 13,265,000	\$ -	\$ 525,000	\$ 12,740,000

The District during the fiscal year and at the end of the fiscal year had not defeased any outstanding debt obligations.

There are a number of limitations and restrictions contained in the general obligation bond indenture. District administration has indicated that the District is in compliance with all significant limitations and restrictions at year end.

I. COMMITMENTS UNDER OPERATING LEASES

Commitments under operating (non-capitalized) lease agreements for facilities and equipment provide for minimum future rental payments at year end as follows (the imputed interest on the leases range from 4.50% to 5.25%:

Year Ending August 31	
2017	\$ 37,590
2018	37,590
2019	37,590
2020	12,530
2021	-
2022-2026	-
2027-2031	-
Total Minimum Future Rentals	\$ 125,300
Rental Expenditures in Current Fiscal Year	\$ 85,412

J. DEBT SERVICE REQUIREMENTS – BONDS, CAPITAL LEASES, & OTHER LONG-TERM DEBT

Debt service requirements for bonds are as follows:

General Obligations - Bonds and Notes Payable			
Year Ended August 31	Principal	Interest	Total Requirements
2017	\$ 540,000	\$ 408,656	\$ 948,656
2018	545,000	397,806	942,806
2019	560,000	386,806	946,806
2020	575,000	375,506	950,506
2021	585,000	360,181	945,181
2022-2026	3,210,000	1,521,844	4,731,844
2027-2031	3,810,000	921,869	4,731,869
2032-2036	2,915,000	208,291	3,123,291
2037-2041	-	-	-
2042-2046	-	-	-
Totals	\$ 12,740,000	\$ 4,580,959	\$ 17,320,959

Capital Leases and Other Long-Term Debt

The District was not obligated for capital leases as of or during the current year. The purpose of capital leases normally is for the purchase of equipment; capital leases are authorized under the Texas Education Code 48.05, the total amount capitalized under the capital leases is \$0, the minimum annual payments are \$0, and the effective rate of interest is 0.0%. Debt service requirements for capital leases and other long-term debt (including the capital acquisition note) are as follows.

Capital Lease Obligations			
Year Ended August 31	Principal	Interest	Total Requirements
2017	\$ -	\$ -	\$ -
2018	-	-	-
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022-2026	-	-	-
2027-2031	-	-	-
2032-2036	-	-	-
2037-2041	-	-	-
2042-2046	-	-	-
Total Capital Lease Payments	\$ -	\$ -	\$ -

K. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

Upon retirement or death of certain employees, the District pays any accrued sick leave and vacation leave in "lump sum" cash payment to such employee or his/her estate. Individuals employed after October 1, 1985, are not eligible to receive the lump sum payments. A summary of changes in the accumulated sick leave and vacation leave liability follows:

	Sick Leave	Vacation Leave
Balance Beginning of Year	\$ -	\$ -
Additions - New Entrants and Salary Increments	-	-
Deductions - Payments to Participants	-	-
Balance End of Fiscal Year	\$ -	\$ -

L. DEFINED BENEFIT PENSION PLAN

a. Plan Description

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

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

b. Pension Plan Fiduciary Net Position

Detail 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.

c. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes; including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature

as noted in the Plan description in (A) above.

d. Contributions

Contribution requirements are established or amended pursuant to Article 16, section 67 of the Texas Constitution which requires the Texas legislature to establish a member contribution rate of not less than 6% of the member's annual compensation and a state contribution rate of not less than 6% and not more than 10% of the aggregate annual compensation paid to members of the system during the fiscal year. Texas Government Code section 821.006 prohibits benefit improvements, if as a result of the particular action, the time required to amortize TRS' unfunded actuarial liabilities would be increased to a period that exceeds 31 years, or, if the amortization period already exceeds 31 years, the period would be increased by such action.

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

	Contribution Rates	
	2015	2016
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2016 Employer Contributions		\$ 188,082
2016 Member Contributions		\$ 532,905
2015 NECE On-Behalf Contributions		\$ 421,947
<u>Payments made by the State On-Behalf of the District for Medicare, Part D:</u>		
Fiscal year 2014 Medicare, Part D On-Behalf		\$ 18,833
Fiscal year 2015 Medicare, Part D On-Behalf		\$ 30,925
Fiscal year 2016 Medicare, Part D On-Behalf		\$ 23,397

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

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

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

- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

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

e. Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected investment rate of return	8.00%
Inflation	2.50%
Salary Increases including inflation	3.5 % to 9.5%
Payroll Growth Rate	2.50%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

f. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non- employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2015 are summarized below:

Teacher Retirement System of Texas
Asset Allocation and Long-Term Expected Real Rate of Return
As of August 31, 2015

	Target Allocation	Long-Term Expected Geometric Real Rate of Return	Expected Contribution to Long-Term Portfolio Returns (1)
Global Equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S.Developed	13.0%	5.1%	0.8%
Emergin Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0.0%	1.8%	0.0%
Hedge Funds (Stable Value)	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real Return			
Global Inflation-Linked Bonds	3.0%	0.9%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy & Natural Resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk Parity			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100.0%		8.7%

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

g. 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: \$	3,482,202	\$ 2,222,477	\$ 1,173,204

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

At August 31, 2016, the Merkel Independent School District reported the liability for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the Merkel Independent School District. The amount recognized by the Merkel Independent School District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Merkel Independent School District were as follows:

District's proportionate share of the collective net pension liability	\$ 2,222,477
State's proportionate share that is associated with the District	5,035,669
Total	<u>\$ 7,258,146</u>

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

At August 31, 2015 the employer's proportion of the collective net pension liability and the percentage increase (decrease) from its proportion measured as of August 31, 2014 are shown in the required supplementary information in Exhibit G-2.

Changes Since the Prior Actuarial Valuation – The following are changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period:

Economic Assumptions

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

Mortality Assumptions

- 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.
- 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.
- 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

- 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.

- There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
- Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
- 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.
- 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

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

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

For the year ended August 31, 2016, the Merkel Independent School district recognized the following:

Year Ended August 31, 2016 pension expense	\$ 717,502
Revenue for support provided by the State	\$ 717,502

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experiences	\$ 11,675	\$ 85,412
Changes in actuarial assumptions	49,072	79,288
Differences between projected and actual investment earnings	339,267	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	660,192	651
Total as of August 31, 2015 measurement date	\$ 1,060,206	\$ 165,351
Contributions paid to TRS subsequent to the measurement date	188,082	
Total as of fiscal year-end	\$ 1,248,288	\$ 165,351

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

Year ended August 31,	Pension Expense Amount
2017	\$ 163,596
2018	163,596
2019	163,596
2020	232,954
2021	95,393
Thereafter	75,720

M. HEALTH CARE COVERAGE

The District provided health insurance coverage for employees under the provisions of the Teacher Retirement System of Texas (TRS) active care health insurance plan during the current year. The District paid premiums per month per employee as set by District policy to the plan. Employees, at their option, authorized payroll withholdings to pay premiums for the excess of employee's total premium over the amount funded by the District. The plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

N. CHANGES IN LONG-TERM LIABILITIES

Long-term activity as shown in the Statement of Net Position at year end was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities:					
Bonds and Notes Payable:					
General Obligation Bonds	\$ 13,265,000	\$ -	\$ 525,000	\$ 12,740,000	\$ 540,000
Capital Acquisition Note	-	-	-	-	-
Unamortized Premium - Bonds	621,163	-	32,354	588,809	-
Deferred Amount on Refunding	-	-	-	-	-
Total Bonds and Notes Payable	\$ 13,886,163	\$ -	\$ 557,354	\$ 13,328,809	\$ 540,000
Other Liabilities:					
Capital Leases	\$ -	\$ -	\$ -	\$ -	\$ -
Interest Accretion-CAB Bonds	-	-	-	-	-
Accrued Interest Payable	18,545	418,796	419,256	18,085	18,085
Pension Liability	907,733	1,500,913	186,169	2,222,477	-
Total Other Liabilities	\$ 926,278	\$ 1,919,709	\$ 605,425	\$ 2,240,562	\$ 18,085
Total Governmental Activities Long-Term Liabilities	\$ 14,812,441	\$ 1,919,709	\$ 1,162,779	\$ 15,569,371	\$ 558,085
Business-type Activities:					
Bonds and Notes Payable:					
Food Service	\$ -	\$ -	\$ -	\$ -	\$ -
Concessions	-	-	-	-	-
Less Deferred Amounts	-	-	-	-	-
Total Bonds & Notes Payable	\$ -	\$ -	\$ -	\$ -	\$ -
Other Liabilities:					
Compensated Absences	\$ -	\$ -	\$ -	\$ -	\$ -
Other Long-term Liabilities	-	-	-	-	-
Total Other Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -
Total Business-type Activities Long-Term Liabilities	\$ -	\$ -	\$ -	\$ -	\$ -

O. DEFERRED INFLOW OF RESOURCES – GOVERNMENTAL FUND STATEMENTS

Unavailable revenue at year-end consisted of the following:

	General Fund	Special Revenue Funds	Debt Service Fund	Total
Net Tax Revenue	\$ 144,782	\$ -	\$ 22,942	\$ 167,724
State and Federal Grants	-	-	-	-
Total Deferred Inflows	\$ 144,782	\$ -	\$ 22,942	\$ 167,724

P. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments at year end are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as “Due from State Agencies” except for some federal programs which are received directly from the federal government for grants such as the REAP Program.

FUND	Due From State - Foundation Entitlements	Due from State - State and Federal Grants	Due from Other Governments	TOTAL
General	\$ 311,157	\$ -	\$ 5,495	\$ 316,652
Special Revenue	-	3,970	69,782	73,752
Debt Service	-	-	857	857
Totals	\$ 311,157	\$ 3,970	\$ 76,134	\$ 391,261

Q. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	General Fund	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total
Property Taxes	\$ 3,998,939	\$ -	\$ 1,024,609	\$ -	\$ 5,023,548
Tax Related Penalties & Interest	50,572	-	262	-	50,834
Investment Income	85,009	-	3,364	6,240	94,613
Food Sales	-	70,246	-	-	70,246
Extracurricular Student Activities	17,993	-	-	-	17,993
Insurance Recovery, SSA, & Other	60,528	1,824	-	-	62,352
Totals	\$ 4,213,041	\$ 72,070	\$ 1,028,235	\$ 6,240	\$ 5,319,586

R. LITIGATION

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is aware of pending exposure to claims related to these areas; however, legal counsel and the District do not expect any financial exposure to assets of the District.

S. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

The District issued bonds during prior fiscal years to fund the construction of an elementary building. At August 31, 2016, the construction of that building was substantially complete. The District began the 2016-17 school year prior to the end of year, and that building was in service at the end of year. Insignificant completion items and final retainages will be concluded in fiscal year 2017, but no significant additional commitments are expected.

T. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District is a member of various shared services arrangements (SSA's) that are accounted for using Model 3 in the Texas Education Agency (TEA) accounting guide for school districts. The SSA's provides services for member districts. Other districts serve as the fiscal agent for the SSA's. In addition to the District, other member districts participate in the shared services arrangements also. The fiscal agent for each SSA provides SSA services. The member districts provide the funds to the fiscal agent. According to guidance provided in the TEA's Resource Guide, the fiscal agent for each SSA has accounted for the fiscal agent's activities of the SSA in special revenue funds. The Shared Services Arrangements listed below have been accounted for using Model 3 in the SSA section of the Resource Guide. The District has accounted for the payments to the fiscal agent in the General Fund No. 199 as intergovernmental expenditures (function 93). A chart detailing the District's participation in those shared services arrangement is a follows:

Shared Services Arrangement	Type of Services	Fiscal Agent	Funding Source	Program Expenditures Current Year
Taylor-Callahan SSA	Special Education	Jim Ned CISD	State Funding	\$ 100,107
Taylor-Callahan SSA	504 Services	Jim Ned CISD	State Funding	79,170
Deaf SSA	Deaf Education	Abilene ISD	State Funding	16,250
West Central Texas SSA	Special Education	Sweetwater	State Special	3,800
TOTAL FUNCTION 93 EXPENDITURES				\$ 199,327

The District also participates in shared service arrangements with other school districts / education service centers for various educational activities. In addition to the District, other member districts participate in the educational cooperatives and the fiscal agent provides SSA services. The funding for each activity is received by the fiscal agent from the grantor agency. The fiscal agent then provides the funds to the member districts. According to guidance provided in TEA's Resource Guide, the Fiscal Agent has accounted for the fiscal agent's activities of the SSA in a Special Revenue Fund. The Shared Services Arrangements has been accounted for using Model 1 in the SSA section of the TEA Resource Guide. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, 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 the District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. Presented below are the shared service arrangements in which the District participates and the extent of funding received and expended under each program.

Shared Services Arrangement	Type of Services	Fiscal Agent	Funding Source	Fiscal Agent Special Revenue Fund	District Special Revenue Fund	Program Expenditures Current Year
Region 14 ESC	Head Start	Region 14	Head Start	n/a	205	\$ 75,993
Region 14 ESC	Teacher Training	Region 14	Title II, Part A	342	255	60,583

U. SUBSEQUENT EVENTS

In preparing the basic financial statements, District administration has evaluated events and transactions for potential recognition or disclosure through January 6, 2017, the date this Annual Financial Report was available to be issued.

V. RELATED ORGANIZATIONS

The District at present does not maintain an educational foundation and it does not receive material support from related entities as defined under current governmental accounting standards. These entities are usually established as not-for-profit entities to provide assistance and support for teachers and students to develop special programs and projects and other school district support activities. Booster clubs and parent teacher organizations that support the District are considered immaterial to the financial statements.

W. RELATED PARTY TRANSACTIONS

The District did not incur any material reportable related party transactions or balances as of and during the current year.

X. FUND BALANCE / NET POSITION ADJUSTMENTS

During the current fiscal year the district did not make a net position adjustment or a fund balance adjustment as indicated by the following table.

	General Fund	Debt Service Fund	Capital Projects Fund	Total
Governmental Fund Balance				
Increase (Decrease) Beginning of Year Fund Balance:				
Correction of a material prior period error	\$ -	\$ -	\$ -	\$ -
Totals	\$ -	\$ -	\$ -	\$ -
Government Wide Net Position				
Increase (Decrease) Beginning of Year Net Position:				
Prior Period Adjustment				\$ -
Totals				\$ -

Y. WORKERS COMPENSATION / PROPERTY & CASUALTY / UNEMPLOYMENT

Workers' Compensation Program

Beginning September 1, 1992, the District established a self-insurance plan for workers' compensation benefits as authorized by Section 504.011 of the Labor Code. The District participates in this plan (West Texas Educational Insurance Association self-funded workers' compensation program) along with other participating entities. The District contributes annual amounts determined by Claims Administrative Services, Inc. As claims arise, they are submitted to and paid by Claims Administrative Services, Inc. on behalf of the District under terms of a contractual agreement. According to state statute, the District is protected against unanticipated catastrophic claims and aggregate loss by coverage carried through a commercial insurer licensed or eligible to do business in Texas in accordance with the Texas Insurance Code. Coverage was in effect for specific occurrences exceeding \$225,000 and aggregate retention at \$2,000,000.

The costs associated with this self-insurance plan are reported as Interfund transactions to the extent of amounts actuarially determined. Accordingly, they are treated as operating revenues of the Internal Service Fund and operating expenditures of the General Fund. The liabilities of the plan include incurred but not reported claims. These liabilities reported in the funds at August 31, 2015, are based on the requirements of Governmental Accounting Standards Board 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 at the date of the financial statements and the amount of the loss can be reasonably estimated. These liabilities include an amount for claims that have been incurred but not reported.

Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. Workers' compensation liabilities for incurred losses to be settled by fixed or reasonably determinable payments over a long period of time were computed by an actuary and are reported at their present value using an expected future investment yield assumption.

Estimates of claims payable and of claims incurred, but not reported at August 31 are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the Fund as they become due. Changes in the balances of claims liabilities during the past year are as follows:

	Prior Fiscal Year	Current Fiscal Year
Unpaid claims, beginning of year	\$ 64,061	\$ 48,349
Incurred claims (including IBNR'S) / Change in Estimates	(1,104)	29,639
Claim Payments	(14,608)	(24,695)
Unpaid claims, end of year	\$ 48,349	\$ 53,293

Z. SCHOOL DISTRICT RETIREE HEALTH PLAN

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

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contributions rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55%. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the last three years, the State's contributions to TRS-Care, the active member contributions, and the school District's contributions are listed below.

TRS Care Contribution Rates and Contribution Amounts						
	Member		District		State On-Behalf	
Year	Rate	Amount	Rate	Amount	Rate	Amount
Current Fiscal Year	0.65%	\$ 48,109	0.55%	\$ 40,708	1.00%	\$ 74,014
Previous Fiscal Year	0.65%	\$ 47,747	0.55%	\$ 40,402	1.00%	\$ 73,458
Fiscal Year - 2 Yrs Prior	0.65%	\$ 46,357	0.55%	\$ 39,225	1.00%	\$ 71,318

Respectively, these contributions equaled the required contributions each year.

REQUIRED SUPPLEMENTARY INFORMATION

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

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 4,080,717	\$ 4,080,717	\$ 4,213,041	\$ 132,324
5800	State Program Revenues	6,520,593	6,520,593	6,580,109	59,516
5900	Federal Program Revenues	5,000	5,000	7,646	2,646
5020	Total Revenues	10,606,310	10,606,310	10,800,796	194,486
EXPENDITURES:					
Current:					
0011	Instruction	5,759,187	6,024,187	5,827,889	196,298
0012	Instructional Resources and Media Services	213,482	213,482	179,754	33,728
0013	Curriculum and Instructional Staff Development	35,005	111,005	83,351	27,654
0023	School Leadership	840,680	764,680	705,941	58,739
0031	Guidance, Counseling and Evaluation Services	327,567	327,567	290,475	37,092
0033	Health Services	87,711	89,711	82,635	7,076
0034	Student (Pupil) Transportation	480,758	480,758	373,361	107,397
0035	Food Services	-	10,000	5,669	4,331
0036	Extracurricular Activities	585,269	585,269	531,809	53,460
0041	General Administration	426,025	433,025	416,445	16,580
0051	Facilities Maintenance and Operations	1,311,117	1,341,117	1,295,331	45,786
0052	Security and Monitoring Services	10,000	10,000	10,000	-
0053	Data Processing Services	467,476	467,476	410,424	57,052
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	206,778	209,778	199,327	10,451
6030	Total Expenditures	10,751,055	11,068,055	10,412,411	655,644
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(144,745)	(461,745)	388,385	850,130
OTHER FINANCING SOURCES (USES):					
7912	Sale of Real and Personal Property	-	-	49,831	49,831
8911	Transfers Out (Use)	(150,623)	(2,625,623)	(2,806,112)	(180,489)
7080	Total Other Financing Sources (Uses)	(150,623)	(2,625,623)	(2,756,281)	(130,658)
1200	Net Change in Fund Balances	(295,368)	(3,087,368)	(2,367,896)	719,472
0100	Fund Balance - September 1 (Beginning)	5,312,755	5,312,755	5,312,755	-
3000	Fund Balance - August 31 (Ending)	\$ 5,017,387	\$ 2,225,387	\$ 2,944,859	\$ 719,472

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

EXHIBIT G-2

	2016	2015
District's Proportion of the Net Pension Liability (Asset)	0.0062873%	0.0033983%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 222,477	\$ 907,733
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	5,035,669	4,315,814
Total	\$ 5,258,146	\$ 5,223,547
District's Covered-Employee Payroll	\$ 7,258,146	\$ 7,131,830
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	30.26%	12.73%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.43%	83.25%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2015 for Year 2016 and August 31, 2014 for 2015.

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

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

EXHIBIT G-3

	2016	2015
Contractually Required Contribution	\$ 188,082	\$ 189,300
Contribution in Relation to the Contractually Required Contribution	(188,082)	(189,300)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
District's Covered-Employee Payroll	\$ 7,401,447	\$ 7,345,757
Contributions as a Percentage of Covered-Employee Payroll	2.54%	2.58%

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

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

MERKEL INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED AUGUST 31, 2016

Changes of benefit terms

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

Changes of assumptions

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

Economic Assumptions

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

Mortality Assumptions

- 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.
- 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.
- 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

- 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.
- There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
- Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
- 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.
- 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

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

**OTHER SUPPLEMENTARY INFORMATION –
COMBINING SCHEDULES**

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

Data Control Codes	205 Head Start	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting
ASSETS				
1110 Cash and Cash Equivalents	\$ -	\$ -	\$ 664	\$ -
1240 Receivables from Other Governments	15,715	38,322	14,872	4,843
1260 Due from Other Funds	-	-	572	-
1290 Other Receivables	-	-	1,034	-
1000 Total Assets	<u>\$ 15,715</u>	<u>\$ 38,322</u>	<u>\$ 17,142</u>	<u>\$ 4,843</u>
LIABILITIES				
2110 Accounts Payable	\$ -	\$ -	\$ 1,022	\$ -
2160 Accrued Wages Payable	4,187	13,615	11,788	4,413
2170 Due to Other Funds	11,122	23,431	-	-
2200 Accrued Expenditures	406	1,276	203	430
2000 Total Liabilities	<u>15,715</u>	<u>38,322</u>	<u>13,013</u>	<u>4,843</u>
FUND BALANCES				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	4,129	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>4,129</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 15,715</u>	<u>\$ 38,322</u>	<u>\$ 17,142</u>	<u>\$ 4,843</u>

270 ESEA VI, Pt B Rural & Low Income	397 Advanced Placement Incentives	429 Math Achievement Academy	Total Nonmajor Governmental Funds
\$ -	\$ 1,845	\$ -	\$ 2,509
-	-	-	73,752
-	-	-	572
-	-	-	1,034
<u>\$ -</u>	<u>\$ 1,845</u>	<u>\$ -</u>	<u>\$ 77,867</u>
\$ -	\$ -	\$ -	\$ 1,022
-	-	-	34,003
-	-	-	34,553
-	-	-	2,315
<u>-</u>	<u>-</u>	<u>-</u>	<u>71,893</u>
-	1,845	-	5,974
-	1,845	-	5,974
<u>\$ -</u>	<u>\$ 1,845</u>	<u>\$ -</u>	<u>\$ 77,867</u>

MERKEL INDEPENDENT SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		205	211	240	255
		Head Start	ESEA I, A Improving Basic Program	National Breakfast and Lunch Program	ESEA II, A Training and Recruiting
REVENUES:					
5700	Total Local and Intermediate Sources	\$ -	\$ -	\$ 72,070	\$ -
5800	State Program Revenues	-	-	2,444	-
5900	Federal Program Revenues	75,993	320,486	375,973	60,583
5020	Total Revenues	75,993	320,486	450,487	60,583
EXPENDITURES:					
Current:					
0011	Instruction	75,993	319,260	-	60,583
0034	Student (Pupil) Transportation	-	1,226	-	-
0035	Food Services	-	-	640,210	-
6030	Total Expenditures	75,993	320,486	640,210	60,583
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	(189,723)	-
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	-	-	189,723	-
1200	Net Change in Fund Balance	-	-	-	-
0100	Fund Balance - September 1 (Beginning)	-	-	4,129	-
3000	Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ 4,129	\$ -

270 ESEA VI, Pt B Rural & Low Income	397 Advanced Placement Incentives	429 Math Achievement Academy	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 72,070
-	-	2,450	4,894
21,585	-	-	854,620
21,585	-	2,450	931,584
21,585	-	2,450	479,871
-	-	-	1,226
-	-	-	640,210
21,585	-	2,450	1,121,307
-	-	-	(189,723)
-	-	-	189,723
-	-	-	-
-	1,845	-	5,974
\$ -	\$ 1,845	\$ -	\$ 5,974

MERKEL INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
 ALL AGENCY FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2016

	BALANCE SEPTEMBER 1 2015	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2016
MISD ACTIVITY				
Assets:				
Cash and Temporary Investments	\$ 792	\$ 204	\$ 186	\$ 810
Liabilities:				
Due to Student Groups	\$ 792	\$ 204	\$ 186	\$ 810
MHS ACTIVITY				
Assets:				
Cash and Temporary Investments	\$ 69,190	\$ 87,069	\$ 94,998	\$ 61,261
Liabilities:				
Due to Student Groups	\$ 69,190	\$ 87,069	\$ 94,998	\$ 61,261
MMS ACTIVITY				
Assets:				
Cash and Temporary Investments	\$ 25,374	\$ 40,086	\$ 43,605	\$ 21,855
Liabilities:				
Due to Student Groups	\$ 25,374	\$ 40,086	\$ 43,605	\$ 21,855
MES ACTIVITY				
Assets:				
Cash and Temporary Investments	\$ 11,425	\$ 2,839	\$ 2,332	\$ 11,932
Liabilities:				
Due to Student Groups	\$ 11,425	\$ 2,839	\$ 2,332	\$ 11,932
AG SCIENCE ACTIVITY				
Assets:				
Cash and Temporary Investments	\$ 3,633	\$ 75,675	\$ 76,073	\$ 3,235
Liabilities:				
Due to Student Groups	\$ 3,633	\$ 75,675	\$ 76,073	\$ 3,235
INT ACTIVITY				
Assets:				
Cash and Temporary Investments	\$ 9,100	\$ 4,354	\$ 7,585	\$ 5,869
Liabilities:				
Due to Student Groups	\$ 9,100	\$ 4,354	\$ 7,585	\$ 5,869
TOTAL AGENCY FUNDS				
Assets:				
Cash and Temporary Investments	\$ 119,514	\$ 210,227	\$ 224,779	\$ 104,962
Liabilities:				
Due to Student Groups	\$ 119,514	\$ 210,227	\$ 224,779	\$ 104,962

MERKEL INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF NET POSITION
 PRIVATE PURPOSE TRUST FUNDS
 AUGUST 31, 2016

	806 Badger Scholarship Fund	807 Merkel Vocational Scholarship	Total Private Purpose Trust Funds
ASSETS			
Cash and Cash Equivalents	\$ 7,014	\$ 114,406	\$ 121,420
Total Assets	<u>7,014</u>	<u>114,406</u>	<u>121,420</u>
LIABILITIES			
Due to Student Groups	<u>30</u>	<u>-</u>	<u>30</u>
Total Liabilities	<u>30</u>	<u>-</u>	<u>30</u>
NET POSITION			
Restricted for Other Purposes	<u>6,984</u>	<u>114,406</u>	<u>121,390</u>
Total Net Position	<u>\$ 6,984</u>	<u>\$ 114,406</u>	<u>\$ 121,390</u>

MERKEL INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 PRIVATE PURPOSE TRUST FUNDS
 FOR THE YEAR ENDED AUGUST 31, 2016

	806 Badger Scholarship Fund	807 Merkel Vocational Scholarship	Total Private Purpose Trust Funds
ADDITIONS:			
Local and Intermediate Sources	\$ 749	\$ -	\$ 749
Net Loss on Investments	-	(3,338)	(3,338)
Total Additions	<u>749</u>	<u>(3,338)</u>	<u>(2,589)</u>
Change in Net Position	749	(3,338)	(2,589)
Total Net Position - September 1 (Beginning)	<u>6,235</u>	<u>117,744</u>	<u>123,979</u>
Total Net Position - August 31 (Ending)	<u>\$ 6,984</u>	<u>\$ 114,406</u>	<u>\$ 121,390</u>

REQUIRED TEXAS EDUCATION AGENCY SCHEDULES

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

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2007 and prior years	Various	Various	\$ Various
2008	1.040100	0.021600	356,373,123
2009	1.040000	0.020000	374,227,216
2010	1.040000	0.020000	389,487,128
2011	1.040000	0.020000	383,534,039
2012	1.040000	0.015000	361,525,748
2013	1.040000	0.015000	374,630,685
2014	1.040000	0.015000	376,530,551
2015	1.040000	0.275000	398,138,977
2016 (School year under audit)	1.040000	0.267900	385,838,370
1000 TOTALS			

(10) Beginning Balance 9/1/2015	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2016
\$ 15,859	\$ -	\$ 299	\$ 4	\$ (3,346)	\$ 12,210
5,490	-	181	4	(229)	5,076
6,521	-	845	16	(332)	5,328
7,651	-	679	13	(352)	6,607
9,875	-	1,194	23	(986)	7,672
15,311	-	3,246	47	(2,512)	9,506
23,097	-	5,675	82	(274)	17,066
29,219	-	10,626	153	(282)	18,158
112,960	-	59,579	15,754	(2,697)	34,930
-	5,046,380	3,916,616	1,008,777	(13,908)	107,079
<u>\$ 225,983</u>	<u>\$ 5,046,380</u>	<u>\$ 3,998,940</u>	<u>\$ 1,024,873</u>	<u>\$ (24,918)</u>	<u>\$ 223,632</u>

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

Data Control Codes		Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
		Original	Final		
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 65,050	\$ 65,050	\$ 72,070	\$ 7,020
5800	State Program Revenues	2,500	2,500	2,444	(56)
5900	Federal Program Revenues	370,000	370,000	375,973	5,973
5020	Total Revenues	437,550	437,550	450,487	12,937
EXPENDITURES:					
0035	Food Services	588,173	659,673	640,210	19,463
6030	Total Expenditures	588,173	659,673	640,210	19,463
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(150,623)	(222,123)	(189,723)	32,400
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	150,623	225,623	189,723	(35,900)
1200	Net Change in Fund Balances	-	3,500	-	(3,500)
0100	Fund Balance - September 1 (Beginning)	4,129	4,129	4,129	-
3000	Fund Balance - August 31 (Ending)	\$ 4,129	\$ 7,629	\$ 4,129	\$ (3,500)

MERKEL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 1,005,225	\$ 1,005,225	\$ 1,028,235	\$ 23,010
5800 State Program Revenues	-	-	25,971	25,971
5020 Total Revenues	1,005,225	1,005,225	1,054,206	48,981
EXPENDITURES:				
Debt Service:				
0071 Principal on Long Term Debt	708,425	708,425	525,000	183,425
0072 Interest on Long Term Debt	296,750	296,750	419,256	(122,506)
0073 Bond Issuance Cost and Fees	50	50	1,000	(950)
6030 Total Expenditures	1,005,225	1,005,225	945,256	59,969
1200 Net Change in Fund Balances	-	-	108,950	108,950
0100 Fund Balance - September 1 (Beginning)	507,113	507,113	507,113	-
3000 Fund Balance - August 31 (Ending)	\$ 507,113	\$ 507,113	\$ 616,063	\$ 108,950

**REPORTS ON COMPLIANCE, INTERNAL CONTROLS AND
FEDERAL AWARDS**

James E. Rodgers and Company, P.C.

Certified Public Accountants

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Member of Texas Society of CPA's and American Institute of CPA's

Richard E. Rodgers CPA • Gerald L. Rodgers CPA

January 6, 2017

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
Merkel Independent School District
Merkel, Texas 79536

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 Merkel Independent School District, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise Merkel Independent School District's basic financial statements, and have issued our report thereon dated January 6, 2017.

Internal Control Over Financial Reporting

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

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

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

James E. Rodgers and Company, P.C.

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

A handwritten signature in black ink that reads "James E. Rodgers & Company". The signature is written in a cursive, flowing style.

James E. Rodgers and Company, P.C.

James E. Rodgers and Company, P.C.

Certified Public Accountants

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Member of Texas Society of CPA's and American Institute of CPA's

Richard E. Rodgers CPA • Gerald L. Rodgers CPA

January 6, 2017

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
Merkel Independent School District
Merkel, Texas 79536

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Merkel Independent School District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).¹ 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 Merkel Independent School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

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

James E. Rodgers and Company, P.C.

Other Matters

The results of our auditing procedures disclosed no instances of noncompliance which are required to be reported in accordance with the Uniform Guidance. Our opinion on each major federal program is not modified. Merkel Independent School District's has no required response to any noncompliance findings identified in our audit.

Report on Internal Control over Compliance

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

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

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

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

Respectfully submitted,



James E. Rodgers and Company, P.C.

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

I. Summary of the Auditor's Results:

1.	Type of report issued on whether the financial statements were prepared in accordance with GAAP (generally accepted accounting standards):	Unmodified opinion
2.	Internal Control over financial reporting:	
2 (a).	Significant deficiencies in internal control:	None
(b).	Significant deficiencies that were material weaknesses:	None
3.	Noncompliance, which is material to the financial statements:	None
4.	Internal Control over major federal programs:	
4 (a).	Significant deficiencies in internal control over major programs	None
(b).	Material weaknesses in internal control over major programs identified	None
5.	Type of report issued on compliance with major programs	Unmodified opinion
6.	Audit findings that the auditor is required to report under 2 CFR 200.516(a):	None
7	Identification of major programs: • Child Nutrition Cluster School Breakfast Program – CFDA 10.553 National School Lunch Program – CFDA 10.555 Summer Feeding Program – CFDA 10.559	
8.	Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
9.	District qualified as a low-risk auditee	Yes

II. Findings Relating to the Financial Statements Which Are Required To Be Reported in Accordance with *Generally Accepted Government Auditing Standards (GAGAS)*.

Finding 2016-001:

a.	Condition:	None
b.	Criteria:	n/a
c.	Cause:	n/a
d.	Effect:	n/a
e.	Recommendation:	n/a
f.	District Response:	n/a

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in 6(a) – 6(f) above.

There were no audit findings or questioned costs for federal awards that are required to be reported.

**MERKEL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF STATUS OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2016**

Finding 2016-001:

The District had no prior year audit findings, therefore, the reporting of the status of prior audit findings is not applicable for this fiscal year.

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

The name of the contact person responsible for corrective action:

Casey Bills, Business Manager
Merkel Independent School District
PO Box 430
Merkel, Texas 79536

District Phone Number: 325-928-2003

The corrective action for Finding 2016-001:

No finding was identified during the current year, thus a corrective action plan relative to identified audit findings is not required for this fiscal year.

MERKEL INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	16610101221904	\$ 320,486
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	16696001221904	21,585
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	17694501221950	60,583
Total Passed Through State Department of Education			\$ 402,654
TOTAL U.S. DEPARTMENT OF EDUCATION			\$ 402,654
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through Region 14 ESC</u>			
Head Start	93.600	06CH010075-02	\$ 75,993
Total Passed Through Region 14 ESC			\$ 75,993
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			\$ 75,993
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401601	\$ 104,584
*National School Lunch Program - Cash Assistance	10.555	71301601	241,465
*National School Lunch Prog. - Non-Cash Assistance	10.555	71301601	29,924
Total CFDA Number 10.555			271,389
Total Child Nutrition Cluster			375,973
Total Passed Through the State Department of Agriculture			\$ 375,973
TOTAL U.S. DEPARTMENT OF AGRICULTURE			\$ 375,973
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 854,620

*Clustered Programs

Federal non-grant revenues reported in the General Fund was erate revenue of \$7,646.

MERKEL INDEPENDENT SCHOOL DISTRICT
NOTES ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS and
ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2016

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of the Merkel Independent School District (the "District") under programs of the federal government for the year ended August 31, 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, change in net position, or cash flows of the District

ACCOUNTING POLICIES

1. For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types and Expendable Trust Funds are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund that is a Governmental Fund type. With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets.
3. The modified accrual basis of accounting is used for the Governmental Fund types, the Expendable Trust Funds, and Agency 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 fund liability is incurred, if measurable, except for un-matured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.
4. Federal grant funds are recorded as earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.
5. The period of performance for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in the Uniform Guidance.