

**PEWITT CONSOLIDATED
INDEPENDENT SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED**

AUGUST 31, 2016

PEWITT CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2016

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CERTIFICATE OF BOARD

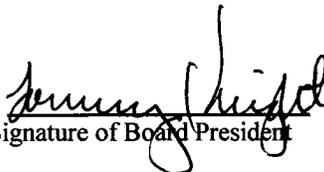
Pewitt Consolidated Independent School District
Name of School District

Morris
County

172-905
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved _____disapproved for the year ended August 31, 2016 at a meeting of the Board of Trustees of such school district on the 20 day of October, 2016.


Signature of Board Secretary


Signature of Board President

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



ARNOLD, WALKER, ARNOLD, & Co., P.C.
Certified Public Accountants and Consultants

Bob J. Arnold, C.P.A., P.F.S.
Lanny G. Walker, C.P.A., P.F.S.
Kris Arnold, C.P.A., P.F.S.
Andrew T. Arnold, C.P.A.
Melissa J. Godfrey, C.P.A.

MEMBER
American Institute Of
Certified Public Accountants
Texas State Society Of
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Pewitt Consolidated Independent School District
Omaha, Texas

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of August 31, 2016, and the respective changes in financial position and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and net pension liability and contributions to TRS on pages 4 through 12 and pages 44 and 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The combining and individual non-major fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, and is also not a required part of the basic financial statements.

The combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and the schedule of expenditures of federal awards are fairly stated in all material respects in relation to the basic financial statements as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. The information is in Exhibits identified in the Table of Contents as J-1, J-4, and J-5. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.
September 28, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Pewitt Consolidated Independent School District we offer readers of the Pewitt Consolidated Independent School District's financial statements this narrative overview and analysis of the financial activities of the Pewitt Consolidated Independent School District for the year ended August 31, 2016. The information presented here should be read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

The District's total combined net position was \$10 million at August 31, 2016. During the year, the District's total revenues exceeded expenses by \$430 thousand, which is about \$4 thousand more than the previous year. Total expenses of the District were \$9.7 million for the year which was more than the prior year by 6%. Governmental fund expenditures increased about 3%. Depreciation expense and changes related to the net pension liability explain most of the rest of the increase in expenses. Total revenues of the District were \$10.1 million for the year, which is an increase of 5%, or \$523 thousand, from the prior year. Operating grants and contributions were up \$83 thousand. State aid revenue was up \$515 thousand. Local revenue was down about \$60 thousand because tax values were down about 3%.

Under new accounting standards as per GASB 68, the District's portion of the net pension liability has been recorded on the government-wide statements. The District's portion of this liability and the related deferred outflow and inflow is a net liability of \$907 thousand.

The District reported fund balance in the general fund of \$6.2 million at August 31, 2016. The general fund reported a net income of \$513 thousand as compared to the \$306 thousand the prior year. Revenue increased \$437 thousand. State revenue increased while tax revenue was down slightly.

Capital assets costing approximately \$262 thousand were added.

No new debt was issued this year.

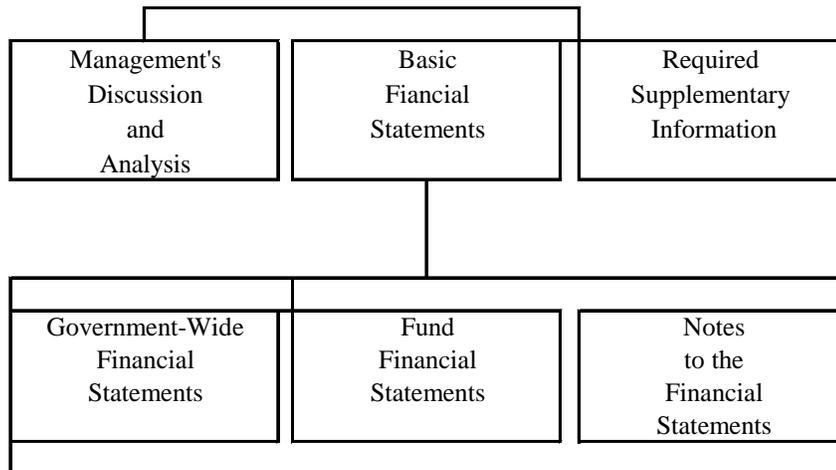
Approximately 95% of the taxes levied for 2015-16 were collected by fiscal year end. Taxable values decreased about 3% compared to the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
 - *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

Figure A-1. Required Components of the District's Annual Financial Report



Summary ⇐ ⇨ Detail

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the District's Government-wide Fund Financial Statements

<i>Type of Statements</i>	Government-wide	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire Agency's government (except fiduciary funds) and the Agency's component units	The activities of the district that are not proprietary or fiduciary	Activities the district operates similar to private businesses: self insurance	Instances in which the district is the trustee or agent for someone else's resources
<i>Required financial statements</i>	*Statement of net position	*Balance sheet	*Statement of net position	*Statement of fiduciary net position
	*Statement of activities	*Statement of revenues, Expenditures & changes in fund balances	*Statement of revenues, expenses and changes in fund net position *Statement of cash flows	*Statement of changes in fiduciary net position
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	all assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; the Agency's funds do not currently contain capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon after	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

(A) The District has no enterprise funds.

(B) Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District's *net position* and how they have changed. Net position, the difference between the District's assets and liabilities, is one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, consideration should be given to additional non-financial factors such as changes in the District's tax base.

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds*-not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The District has two kinds of funds:

- *Governmental funds*-Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, additional information is provided that explains the relationship (or differences) between them.
- *Fiduciary funds*-The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that-because of a trust arrangement-can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. These activities are excluded from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net position. The District's combined net position was approximately \$10 million at August 31, 2016.

Table A-1
The District's Net Position
(in thousands of dollars)

	Governmental Activities	
	2016	2015
Current and other assets	7,128	6,750
Capital and non-current assets	5,661	5,852
TOTAL ASSETS	12,789	12,602
Deferred charge for refunding	80	89
Deferred resource outflow related to TRS	1,144	166
TOTAL DEFERRED OUTFLOWS OF RESOURCES	1,224	255
Long-term liabilities	3,259	2,542
Other liabilities	341	468
TOTAL LIABILITIES	3,600	3,010
Unavailable revenue-property taxes	53	45
Deferred resource inflow related to TRS	325	197
TOTAL DEFERRED INFLOWS OF RESOURCES	378	242
Net position		
Invested in capital assets		
net of related debt	4,207	4,256
Restricted	386	399
Unrestricted	5,442	4,950
TOTAL NET POSITION	10,035	9,605

Net assets invested in capital assets net of related debt reflects the book value of the District's capital assets in excess of the debt which financed those assets. The \$5.4 million of unrestricted net position represents resources available to fund the programs of the District for the next fiscal year.

The \$386 thousand is restricted as follows:

Restricted for food service	149
Restricted for debt service	237
	<u>386</u>

Net position of the District's governmental activities increased from \$9.61 million to \$10 million, or \$430 thousand. First, the District's revenues were more than expenditures by \$499 thousand. The District acquired capital assets this year of approximately \$262 thousand and paid \$135 thousand in debt service principal. Third, the District recorded depreciation of \$452 thousand.

Changes in net position.

The District's total revenues were \$10.1 million. 29% of this comes from taxes, 53% was from state aid formula grants and 14% came from operating grants and contributions.

The total cost of all programs was \$9.7 million. Approximately 68% of this was for instructional and student services.

Net position increased by \$430 thousand from the excess of revenues over expenses.

Table A-2
The District's Changes in Net Position
(in thousands of dollars)

	Governmental Activities	
	2016	2015
Revenues		
Program Revenues:		
Charges for Services	206	171
Operating Grants and Contributions	1,429	1,346
General Revenues:		
Property Taxes	2,964	3,064
State aid - formula	5,382	4,867
Investment earnings	19	12
Other	123	140
Total Revenues	10,123	9,600
Expenses		
Instruction and instructional related	5,311	5,029
Instructional leadership/school administration	578	526
Guidance, social work, health, transportation	702	681
Food services	628	566
Extracurricular activities	478	452
General Administration	284	260
Plant maintenance and security	1,034	1,006
Data processing services	305	243
Debt Service	36	68
Facilities acquisition and construction	-	32
Pmts to fiscal agent/member districts - shared service	240	232
Other intergovernmental	97	79
Total Expenses	9,693	9,174
Increase (Decrease) in Net Position	430	426
Beginning Net Position	9,605	10,230
Prior period adjustment	-	(1,051)
Ending Net Position	10,035	9,605

Table A-3 presents the cost of each of the District's largest functions as well as each function's *net cost* (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$9.7 million.
- However, the amount that taxpayers paid for these activities through property taxes was only \$2.96 million.
- Some of the cost was paid by those who directly benefited from the programs (\$206 thousand), or by grants and contributions (\$1.42 million).

Table A-3
Net Cost of Selected District Functions
(in thousands of dollars)

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction	5,311	5,029	4,396	4,192
School administration	284	260	284	260
Plant Maintenance & Operations	1,034	1,006	1,034	1,006

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The District reported fund balance in its governmental funds of approximately \$6.6 million reflecting a net increase of \$499 thousand. The general fund balance increased \$513 thousand. Reasons for the increase are explained above on page 4. The fund balance in the Food Service Fund decreased \$24 thousand as compared to the \$63 thousand the prior year. The District has been decreasing this because it had been an excess in the past. Revenues were up \$30 thousand in total compared to the prior year. The fund balance in the debt service fund increased \$10 thousand. This was similar the prior year.

General Fund Budgetary Highlights

Several budget amendments were made during the year. Even with these amendments, actual expenditures were less than budgeted by approximately \$508 thousand or about 4.7%. All functions were properly budgeted. Revenues were \$394 thousand more than budgeted, or about 4.7%. The net change to fund balance was better than the budgeted amount by \$902 thousand.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

Table A-4
District's Capital Assets
(in thousands of dollars)

	Governmental Activities	
	2016	2015
Land	54	54
Buildings and improvements	11,971	11,851
Furniture and equipment	3,422	3,281
Totals at historical cost	<u>15,447</u>	<u>15,186</u>
Total accumulated depreciation	<u>(9,786)</u>	<u>(9,334)</u>
Net capital assets	<u><u>5,661</u></u>	<u><u>5,852</u></u>

Two buses and some smaller items were acquired this year. Also, minor building improvements were accomplished.

Long-Term Debt

Table A-5
District's Long-Term Debt
(in thousands of dollars)

	Governmental Activities	
	2016	2015
Bonds payable	1,400	1,535
	<u>1,400</u>	<u>1,535</u>

There was no new debt issued this year.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Board of Trustees considered many factors when setting the fiscal year 2016-2017 budget and tax rates. Key factors considered were state funding formulas, current property values, declining enrollment and staffing needs. The District adopted the Maintenance & Operating (M&O) tax rate of \$1.04 and Interest & Sinking (I&S) tax rate of \$0.058 for a total of \$1.098 which kept the tax rate the same as last year. The District gave raises for the 2016-2017 fiscal year. The District's original fiscal year 2017 budget shows a balanced budget.

The district is currently in a period of declining enrollment as compared to the previous year as evidenced by the chart below.

Year	ADA	M&O Tax Rate	Local Revenue
2012-2013	955.10	\$1.04	\$2,948,579
2013-2014	965.43	\$1.04	\$2,822,851
2014-2015	940.90	\$1.04	\$2,879,543
2015-2016	917.48	\$1.04	\$2,766,071
2016-2017	840.58	\$1.04	\$2,746,442

The Pewitt CISD projected state aid is \$4,902,241.00, which is a decrease from prior year.

Certified taxable values have increased from 2015-2016 to 2016-2017 school year. The amount of taxable value has increased by \$9,570,229.65 from the prior year.

Pewitt CISD has no major industry in the district.

2016 Unemployment Rates for Morris County

January	9.1%	May	11.0%
February	8.2%	June	12.4%
March	8.3%	July	12.8%
April	10.7%		

The budgeted expenditure for the 2016-2017 general fund is \$8,173,190.63

The projected revenue for the 2016-2017 general fund is \$8,173,190.63

The District will continue to monitor enrollment figures, tax collections, and all significant factors affecting the budget. The District's fund balance in the General Fund should remain relatively unchanged if the budgetary estimates are realized.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the Pewitt Consolidated Independent School District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to the District's Central Business Office.

PEWITT CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2016

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 6,041,921
1120 Current Investments	624,972
1220 Property Taxes Receivable (Delinquent)	578,350
1230 Allowance for Uncollectible Taxes	(389,308)
1240 Due from Other Governments	271,798
Capital Assets:	
1510 Land	54,000
1520 Buildings, Net	5,137,758
1530 Furniture and Equipment, Net	469,389
1000 Total Assets	12,788,880
DEFERRED OUTFLOWS OF RESOURCES	
1701 Deferred Charge for Refunding	79,926
1705 Deferred Outflow Related to TRS	1,143,666
1700 Total Deferred Outflows of Resources	1,223,592
LIABILITIES	
2110 Accounts Payable	3,030
2150 Payroll Deductions & Withholdings	639
2160 Accrued Wages Payable	262,057
2180 Due to Other Governments	75,093
Noncurrent Liabilities	
2501 Due Within One Year	140,000
2502 Due in More Than One Year	1,394,260
2540 Net Pension Liability (District's Share)	1,724,909
2000 Total Liabilities	3,599,988
DEFERRED INFLOWS OF RESOURCES	
2601 Unavailable Revenue - Property Taxes	52,521
2605 Deferred Inflow Related to TRS	325,082
2600 Total Deferred Inflows of Resources	377,603
NET POSITION	
3200 Net Investment in Capital Assets	4,206,813
3820 Restricted for Federal and State Programs	148,501
3850 Restricted for Debt Service	237,247
3900 Unrestricted	5,442,320
3000 Total Net Position	\$ 10,034,881

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

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

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	3 Charges for Services	4 Operating Grants and Contributions	6 Primary Gov. Governmental Activities

Primary Government:

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 5,216,269	\$ 10,500	\$ 886,140	\$ (4,319,629)
12 Instructional Resources and Media Services	66,853	-	-	(66,853)
13 Curriculum and Staff Development	27,147	-	17,438	(9,709)
21 Instructional Leadership	90,533	-	6,000	(84,533)
23 School Leadership	487,668	-	-	(487,668)
31 Guidance, Counseling and Evaluation Services	197,977	-	92,383	(105,594)
33 Health Services	69,288	-	-	(69,288)
34 Student (Pupil) Transportation	434,603	-	-	(434,603)
35 Food Services	628,280	154,009	426,930	(47,341)
36 Extracurricular Activities	478,446	41,450	-	(436,996)
41 General Administration	283,539	-	-	(283,539)
51 Facilities Maintenance and Operations	1,004,595	-	-	(1,004,595)
52 Security and Monitoring Services	29,895	-	-	(29,895)
53 Data Processing Services	304,846	-	-	(304,846)
72 Debt Service - Interest on Long Term Debt	35,912	-	-	(35,912)
93 Payments related to Shared Services Arrangements	239,546	-	-	(239,546)
99 Other Intergovernmental Charges	97,000	-	-	(97,000)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 9,692,397	\$ 205,959	\$ 1,428,891	\$ (8,057,547)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	2,804,856
DT	Property Taxes, Levied for Debt Service	158,687
SF	State Aid - Formula Grants	5,381,974
IE	Investment Earnings	18,556
MI	Miscellaneous Local and Intermediate Revenue	123,488
TR	Total General Revenues	8,487,561
CN	Change in Net Position	430,014
NB	Net Position - Beginning	9,604,867
NE	Net Position--Ending	\$ 10,034,881

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

PEWITT CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2016

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 5,849,000	\$ 192,921	\$ 6,041,921
1120 Investments - Current	472,660	152,312	624,972
1220 Property Taxes - Delinquent	547,813	30,537	578,350
1230 Allowance for Uncollectible Taxes (Credit)	(367,113)	(22,195)	(389,308)
1240 Receivables from Other Governments	226,495	45,303	271,798
1000 Total Assets	<u>\$ 6,728,855</u>	<u>\$ 398,878</u>	<u>\$ 7,127,733</u>
LIABILITIES			
2110 Accounts Payable	\$ 3,030	\$ -	\$ 3,030
2150 Payroll Deductions and Withholdings Payable	639	-	639
2160 Accrued Wages Payable	262,057	-	262,057
2180 Due to Other Governments	70,305	4,788	75,093
2000 Total Liabilities	<u>336,031</u>	<u>4,788</u>	<u>340,819</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	180,700	8,342	189,042
2600 Total Deferred Inflows of Resources	<u>180,700</u>	<u>8,342</u>	<u>189,042</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	148,501	148,501
3480 Retirement of Long-Term Debt	-	237,247	237,247
Committed Fund Balance:			
3510 Construction	200,000	-	200,000
3530 Capital Expenditures for Equipment	90,000	-	90,000
Assigned Fund Balance:			
3590 Other Assigned Fund Balance	338,810	-	338,810
3600 Unassigned Fund Balance	5,583,314	-	5,583,314
3000 Total Fund Balances	<u>6,212,124</u>	<u>385,748</u>	<u>6,597,872</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 6,728,855</u>	<u>\$ 398,878</u>	<u>\$ 7,127,733</u>

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

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

Total Fund Balances - Governmental Funds	\$	6,597,872
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$15,185,703 and the accumulated depreciation was (\$9,334,127). 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.		3,366,759
2 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 2016 capital outlays and debt principal payments is to decrease net position.		396,539
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of 1,724,909, a Deferred Resource Inflow related to TRS in the amount of \$325,082 and a Deferred Resource Outflow related to TRS in the amount of \$1,143,666. This amounted to a decrease in Net Position in the amount of \$16,880.		(16,880)
4 The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(451,968)
5 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.		142,559
19 Net Position of Governmental Activities	\$	10,034,881

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

PEWITT CONSOLIDATED 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	Other Funds	Total Governmental Funds	
REVENUES:				
5700	Total Local and Intermediate Sources	\$ 2,988,191	\$ 323,664	\$ 3,311,855
5800	State Program Revenues	5,710,307	102,764	5,813,071
5900	Federal Program Revenues	92,383	908,291	1,000,674
5020	Total Revenues	<u>8,790,881</u>	<u>1,334,719</u>	<u>10,125,600</u>
EXPENDITURES:				
Current:				
0011	Instruction	4,451,119	539,941	4,991,060
0012	Instructional Resources and Media Services	66,853	-	66,853
0013	Curriculum and Instructional Staff Development	9,709	17,438	27,147
0021	Instructional Leadership	84,533	6,000	90,533
0023	School Leadership	486,653	-	486,653
0031	Guidance, Counseling and Evaluation Services	197,977	-	197,977
0033	Health Services	68,612	-	68,612
0034	Student (Pupil) Transportation	426,207	-	426,207
0035	Food Services	-	607,922	607,922
0036	Extracurricular Activities	417,902	-	417,902
0041	General Administration	276,522	-	276,522
0051	Facilities Maintenance and Operations	1,000,217	-	1,000,217
0052	Security and Monitoring Services	29,895	-	29,895
0053	Data Processing Services	304,677	-	304,677
Debt Service:				
0071	Principal on Long Term Debt	-	135,000	135,000
0072	Interest on Long Term Debt	-	41,950	41,950
Capital Outlay:				
0081	Facilities Acquisition and Construction	120,453	-	120,453
Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of SSA	239,546	-	239,546
0099	Other Intergovernmental Charges	97,000	-	97,000
6030	Total Expenditures	<u>8,277,875</u>	<u>1,348,251</u>	<u>9,626,126</u>
1200	Net Change in Fund Balances	513,006	(13,532)	499,474
0100	Fund Balance - September 1 (Beginning)	<u>5,699,118</u>	<u>399,280</u>	<u>6,098,398</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 6,212,124</u>	<u>\$ 385,748</u>	<u>\$ 6,597,872</u>

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

PEWITT CONSOLIDATED 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	\$	499,474
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 2016 capital outlays and debt principal payments is to decrease net position.		396,539
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.		(451,968)
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.		2,849
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 8/31/2014 caused the change in the ending net position to decrease in the amount of \$108,210. Contributions made before the measurement but during the 2015 FY were also de-expended and recorded as a reduction in the net pension liability for the district. This caused an increase in the change in net position in the amount of \$280,430. The District recorded their proportionate share of the pension expense during the measurement period as part of the net pension liability. The amount expensed for FY2015 was \$189,100 for pension expense from TRS data. The impact of all of these is to decrease the change in net position by \$16,880.		(16,880)
 Change in Net Position of Governmental Activities	 \$	 <u>430,014</u>

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

PEWITT CONSOLIDATED 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	\$ 2,850,571	\$ 2,850,571	\$ 2,988,191	\$ 137,620
5800	State Program Revenues	5,459,142	5,463,024	5,710,307	247,283
5900	Federal Program Revenues	83,000	83,000	92,383	9,383
5020	Total Revenues	8,392,713	8,396,596	8,790,881	394,285
EXPENDITURES:					
Current:					
0011	Instruction	4,741,247	4,725,590	4,451,119	274,471
0012	Instructional Resources and Media Services	80,193	80,193	66,853	13,340
0013	Curriculum and Instructional Staff Development	15,100	16,322	9,709	6,613
0021	Instructional Leadership	84,018	84,533	84,533	-
0023	School Leadership	493,364	493,364	486,653	6,711
0031	Guidance, Counseling and Evaluation Services	202,931	202,931	197,977	4,954
0033	Health Services	67,749	68,612	68,612	-
0034	Student (Pupil) Transportation	343,787	486,051	426,207	59,844
0036	Extracurricular Activities	458,353	458,353	417,902	40,451
0041	General Administration	281,004	290,491	276,522	13,969
0051	Facilities Maintenance and Operations	983,632	1,038,933	1,000,217	38,716
0052	Security and Monitoring Services	36,150	36,150	29,895	6,255
0053	Data Processing Services	266,639	305,740	304,677	1,063
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	159,716	120,453	39,263
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	241,546	241,546	239,546	2,000
0099	Other Intergovernmental Charges	97,000	97,000	97,000	-
6030	Total Expenditures	8,392,713	8,785,525	8,277,875	507,650
1200	Net Change in Fund Balances	-	(388,929)	513,006	901,935
0100	Fund Balance - September 1 (Beginning)	5,699,118	5,699,118	5,699,118	-
3000	Fund Balance - August 31 (Ending)	\$ 5,699,118	\$ 5,310,189	\$ 6,212,124	\$ 901,935

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

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

	Agency Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 114,811
Total Assets	<u>\$ 114,811</u>
LIABILITIES	
Due to Student Groups	\$ 114,811
Total Liabilities	<u>\$ 114,811</u>

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

PEWITT CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED AUGUST 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

PEWITT CONSOLIDATED 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 promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement on Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency's *Financial Accountability System Resource Guide* (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

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.

A. REPORTING ENTITY

The Board of Trustees (the "Board") is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the District is a financial reporting entity as defined by the Governmental Accounting Standards Board ("GASB") in its Statement No. 14, "The Financial Reporting Entity." There are no component units included within the reporting entity.

B. GOVERNMENT-WIDE 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 PEWITT CONSOLIDATED 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. There are no business type activities.

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. Direct costs are those that are clearly identifiable with a specific function. Program revenues of the District include charges for services and operating grants and contributions. 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 a revenue is not a program revenue, it is a general revenue used to support all of the District's functions. Taxes are always general revenues.

Inter-fund activities between governmental funds appear as due to/due froms on the Governmental Fund Balance Sheet and as other resources and other uses on the governmental fund Statement of Revenues, Expenditures and Changes in Fund Balance. All inter-fund transactions between governmental funds are eliminated on the

government-wide statements. Inter-fund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide Statement of Activities.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories - governmental, 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 funds major and reports their financial condition and results of operations in a separate column.

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 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 un-matured interest and principal on long-term debt, which is recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. The District considers all revenues available if they are collectible within 60 days after year end.

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

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

D. FUND ACCOUNTING

The District's accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, equity, revenues and expenditures.

The District reports the following major governmental funds:

- 1. The General Fund** – The general fund is the District's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund.

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

Governmental Funds:

1. **Special Revenue Funds** – The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
2. **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.

Fiduciary Funds:

1. **Agency Funds** - The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Funds are student activity funds.

E. OTHER ACCOUNTING POLICIES

1. In the government-wide financial statements, long-term debt is reported as a liability in the governmental activities statement of net position. In the fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs are reported as debt service expenditures.
2. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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.

3. Capital assets, which include land, buildings, furniture and equipment, are reported in the applicable governmental activities column 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 and the component units are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	50
Building Improvements	20-50
Vehicles	10
Office Equipment	10
Computer Equipment	10

4. Investments are stated at fair value.
5. In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Commitments of fund balance represent tentative management plans that are subject to change.
6. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
7. The Data Control Codes refer to the account code structure prescribed by 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 data base for policy development and funding plans.
8. School Districts are required to report all expenses by function, except certain indirect expenses. General administration and data processing service functions (data control codes 41 and 53, respectively) include expenses that are indirect expenses of other functions. These indirect expenses are not allocated to other functions.
9. Deferred Outflows/Inflows of Resources—The District implemented GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position and GASB Statement No. 65, Items Previously Reported as Assets and Liabilities for the year ended August 31, 2013. The District implemented GASB Statement No. 68 Accounting and Financial Reporting for Pensions for the year ended August 31, 2015. In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has two types of items that qualify for reporting in this category, deferred charge for refunding bonded indebtedness and deferred outflows related to TRS as per GASB 68 related to pension accounting. These will be recognized as an outflow of resources in the subsequent years as they are amortized.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time. The District has two types of items that qualify for reporting in this category, property taxes and deferred inflows related to TRS. These amounts will be recognized as an inflow of resources in the subsequent years as collected.

10. Fund balance measures the net financial resources available to finance expenditures of future periods.

The District's Unassigned General Fund Balance will be maintained to provide the District with sufficient working capital and a margin of safety to address local and regional emergencies without borrowing. The Unassigned General Fund balance may only be appropriated by resolution of the Board of Trustees.

Fund balance of the District may be committed for a specific source by formal action of the Pewitt Consolidated I.S.D. Board of Trustees. Amendments or modifications of the committed fund balance must also be approved by formal action of the Pewitt Consolidated I.S.D. Board of Trustees.

When it is appropriate for fund balance to be assigned, the Board delegates authority to the Superintendent and Business Manager.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, followed by committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

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, and net pension liability 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 liabilities at the beginning of the year were as follows:

Capital Assets at the beginning of the Year	Historic Cost	Accumulated Depreciation	Beginning of the Year	Change in Net Position
Land	54,000	-	54,000	
Buildings	11,850,577	(6,613,434)	5,237,143	
Furniture & Equipment	3,281,126	(2,720,693)	560,433	
Change in Net Position	15,185,703	(9,334,127)	5,851,576	5,851,576
			Payable at the Beginning of the Year	
Long-term liabilities at the Beginning of the Year				
Bonds Payable			1,535,000	
Premium on Issuance of Debt			149,178	
Deferred Charge on Refunding			(88,806)	
Change in Net Position				1,595,372
Net Pension Liability				
Net Pension Liability			858,156	
Deferred Outflow related to TRS			(165,639)	
Deferred Inflow related to TRS			196,928	
Change in Net Position				889,445
Net Adjustment to Net Position				3,366,759

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 a 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. The details of this adjustment are as follows:

	<u>Amount</u>	<u>Adjustments to Changes in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Current year Capital Outlay</u>			
Buildings & Improvements	120,453	120,453	120,453
Furniture & Equipment	141,086	141,086	141,086
Total Capital Outlay	<u>261,539</u>	<u>261,539</u>	<u>261,539</u>
Book Value of Asset Dispositions	<u>-</u>	<u>-</u>	<u>-</u>
<u>Debt Principal Payments</u>	<u>135,000</u>	<u>135,000</u>	<u>135,000</u>
Total Adjustment to Net Position	<u><u>396,539</u></u>	<u><u>396,539</u></u>	<u><u>396,539</u></u>

Another element of the reconciliation on Exhibit C-4 is 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 for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Change in Net Position</u>	<u>Adjustments to Net Position</u>
<u>Adjustments to Revenue and Unearned Revenue</u>			
Taxes Collected from Prior Year Levies	133,390	(133,390)	-
Uncollected taxes (assumed collectible) from Current Year Levy	136,521	136,521	136,521
Effect of prior year tax entries	6,320	(6,320)	-
Amortization of premium/discount	14,918	14,918	14,918
Amortization of deferred charge on refunding	8,880	(8,880)	(8,880)
Total		<u><u>2,849</u></u>	<u><u>142,559</u></u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds if they are considered major funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit C-5 and the other two reports are in Exhibit J-4 and J-5.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose 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. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and non-appropriated budget special revenue funds is as follows:

	August 31, 2016
	<u>Fund Balance</u>
Appropriated Budget Funds - Food Service Special Revenue Fund	148,501
Nonappropriated Budget Funds	<u>-</u>
All Special Revenue Funds	<u><u>148,501</u></u>

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

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. Since the district complies with this law, it has no custodial credit risk for deposits.

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 limiting foreign currency investments to only those guaranteed by the state of Israel.

As of August 31, 2016, the following are the District's cash and cash equivalents with respective maturities and credit rating:

Type of Deposit	Fair Value	Percent	Maturity in Less than 1 year	Maturity in 1-10 Years	Maturity in Over 10 Years	Credit Rating
Cash	\$ 1,372,914	22%	\$ 1,372,914	-	-	N/A
Money Markets and						
FDIC Insured Accounts	4,332,484	72%	4,332,484	-	-	N/A
Investment Pools:						
Lone Star						
Cash	307,678	5%	307,678	-	-	AAAm
Money Market	28,845	1%	28,845	-	-	AAAm
Total Investment Pools:	336,523	6%	336,523	-	-	
Total Cash and Cash Equivalents	\$ 6,041,921	100%	\$ 6,041,921	-	-	

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

- a. Depository: Morris County National Bank
- b. The market value of securities pledged as of the date of the highest combined balance on deposit was \$6,833,379.
- c. The highest combined balances of cash, savings, and time deposit accounts amounted to \$6,412,830 and occurred during the month of February, 2016.
- d. Total amount of FDIC coverage at the time of the highest combined balance was \$343,743.

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. PEWITT CONSOLIDATED INDEPENDENT SCHOOL DISTRICT is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing investments for PEWITT CONSOLIDATED INDEPENDENT SCHOOL 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 commercial paper, corporate bonds, mutual bond funds to the top ratings issued by nationally recognized statistical rating organizations (NRSROs).

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 all of the investment portfolio to have maturities of less than one year.

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 limiting foreign investments to only those backed by the state of Israel and to less than 5% of all investments.

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.

In this discussion and in the table below, investments are defined according to GASB 72 as a security or other asset that (a) a government holds primarily for the purpose of income or profit and (b) has a present service capacity based solely on its ability to generate cash or to be sold to generate cash. An asset initially reported as a capital asset and later held for sale would not subsequently be reclassified as an investment.

As of August 31, 2016, PEWITT CONSOLIDATED INDEPENDENT SCHOOL DISTRICT had the following investments subject to the fair value measurement.

	Balance at August 31, 2016	Fair Value Measurements Using Quoted Prices in		
		Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment by Fair Value Level				
Debt Securities:				
Lone Star				
U.S. Treasury Securities	-	-	-	-
Agencies	624,972	624,972	-	-
Commercial Paper	-	-	-	-
Total Debt Securities	624,972	624,972	-	-
Total	624,972	624,972	-	-

Debt and equity securities classified in Level 1 are valued using prices quoted in active markets for those securities.

The fair value of the commercial paper at August 31, 2016 was determined primarily based on level 2 inputs. The District estimates the fair value of these investments using other inputs such as interest rates and yield curves that are observable at commonly quoted intervals. This is acquired through the investment pool mix.

PEWITT CONSOLIDATED INDEPENDENT SCHOOL DISTRICT has no investments measured at the Net Asset Value (NAV) per Share.

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 RECEIVABLES AND PAYABLES

There were no inter-fund balances at August 31, 2016. There were no transfers between funds during the year ended August 31, 2016.

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2016, were as follows:

	Property Taxes	Other Governments	Due From Other Funds	Other	Total Receivables
Governmental Activities:					
General Fund	547,813	226,495	-	-	774,308
Nonmajor Governmental Funds	30,537	45,303	-	-	75,840
Total - Governmental Activities	<u>578,350</u>	<u>271,798</u>	<u>-</u>	<u>-</u>	<u>850,148</u>
Amounts not scheduled for collection during the subsequent year	<u>389,308</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>389,308</u>

Payables at August 31, 2016, were as follows:

	<u>Accounts</u>	<u>Loans, Leases and Bonds Payable- Current Year</u>	<u>Salaries and Benefits</u>	<u>Due to Other Funds</u>	<u>Due to Other Governments</u>	<u>Other</u>	<u>Total Payables</u>
Governmental Activities:							
General Fund	3,030	-	262,696	-	70,305	-	336,031
Nonmajor Governmental Funds	-	-	-	-	4,788	-	4,788
Total - Governmental Activities	<u>3,030</u>	<u>-</u>	<u>262,696</u>	<u>-</u>	<u>75,093</u>	<u>-</u>	<u>340,819</u>
Amounts not scheduled for payment during the subsequent year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

F. CAPITAL ASSET ACTIVITY

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

	Primary Government				
	<u>Beginning</u>				<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Adjustments</u>	<u>Balance</u>
Governmental Activities:					
Land	54,000	-	-	-	54,000
Buildings and Improvements	11,850,577	120,453	-	-	11,971,030
Furniture and Equipment	3,281,126	141,086	-	-	3,422,212
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Totals at Historic Cost	15,185,703	261,539	-	-	15,447,242
Less Accumulated Depreciation for:					
Buildings and Improvements	(6,613,434)	(219,838)	-	-	(6,833,272)
Furniture and Equipment	(2,720,693)	(232,130)	-	-	(2,952,823)
Total Accumulated Depreciation	<hr/> (9,334,127) <hr/>	<hr/> (451,968) <hr/>	<hr/> - <hr/>	<hr/> - <hr/>	<hr/> (9,786,095) <hr/>
Governmental Activities Capital Assets, Net	<hr/> <u>5,851,576</u> <hr/>	<hr/> <u>(190,429)</u> <hr/>	<hr/> - <hr/>	<hr/> - <hr/>	<hr/> <u>5,661,147</u> <hr/>

Depreciation expense was charged to governmental functions as follows:

Instruction	213,739
Student (Pupil) Transportation	148,975
Food Services	19,005
Curricular/Extracurricular Activities	60,037
General Administration	6,510
Plant Maintenance and Operations	<u>3,702</u>
Total Depreciation Expense	<u><u>451,968</u></u>

G. BONDS PAYABLE

Bonded indebtedness of the District is reflected in the Statement of net assets. Current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. The effective interest rate on the bond is 2.73%.

A summary of changes in long-term debt for the year ended August 31, 2016 is as follows:

<u>Description</u>	<u>Interest Rate Payable</u>	<u>Amounts Original Issue</u>	<u>Interest Current Year</u>	<u>Amounts Outstanding 9/1/2015</u>	<u>Issued/</u>	<u>Refunded/</u>	<u>Amounts Outstanding 8/31/2016</u>
					<u>Interest Retired Current Year</u>	<u>Interest Retired Current Year</u>	
Unlimited Tax Refunding							
Bonds, Series 2012	2.00%-3.00%	1,705,000	41,950	1,535,000	-	(135,000)	1,400,000
TOTAL			41,950	1,535,000	-	(135,000)	1,400,000

Debt service requirements are as follows:

<u>Year Ended August 31</u>	<u>General Obligations</u>		<u>Total Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2017	140,000	39,200	179,200
2018	140,000	35,700	175,700
2019	145,000	31,425	176,425
2020	150,000	27,000	177,000
2021	155,000	22,425	177,425
2022-2026	670,000	40,950	710,950
	<u>1,400,000</u>	<u>196,700</u>	<u>1,596,700</u>

Proceeds from the issuance of refunding bonds, The Pewitt Consolidated Independent School District Unlimited Tax Refunding Bonds, Series 2012 dated November 15, 2012 were received during February, 2013 pursuant to Texas Government Code, Chapter 1207. Proceeds from the \$1,705,000 bonds were used to advance refund a portion of the District's outstanding bonds for debt service savings and to pay the costs of issuing the Bonds. Interest will range from 2.00% to 3.00%. Interest and principal are being repaid annually beginning in fiscal year 2014 and will continue until maturity in fiscal year 2025. The refunding was undertaken to reduce total debt service payments by approximately \$245 thousand and to obtain an economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of approximately \$224 thousand.

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2016.

H. HEALTHCARE COVERAGE

From September 1, 2015 to August 31, 2016, employees of Pewitt Consolidated Independent School District were covered by a health insurance plan with TRS. The District paid premiums of \$225 per month per employee to the Plan and Employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents.

I. MAINTENANCE OF EFFORT

Contributions for health care for the year ended August 31, 2016 were as follows:

Total contributions for health care:	278,127
Less alternate plan contributions	-
Less COBRA	-
2015-2016 maintenance of effort	278,127

J. DEFINED BENEFIT PENSION PLAN

Plan Description. PEWITT CONSOLIDATED 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.

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2015 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2015.

Net Pension Liability			<u>Total</u>	
Total Pension Liability			\$ 163,887,375,172	
Less: Plan Fiduciary Net Position			(128,538,706,212)	
Net Pension Liability			\$ 35,348,668,960	
Net Position as percentage of Total Pension Liability			78.43%	

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.

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				6.8%	6.8%
TRS					
Employers				6.8%	6.8%
	District's 2015 Employer Contributions				\$ 214,387
	District's 2015 Member Contributions				\$ 363,654
	District's 2015 NECE On-Behalf Contributions				\$ 307,572

Contributors to the plan include members, employers and the State of Texas as the only non-employer contributing entity. The State contributes to the plan in accordance with state statutes and the General Appropriations Act (GAA).

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers including public schools are required to pay the employer contribution rate 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 source or a privately sponsored source.

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 does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

Actuarial Assumptions. The total pension liability in the August 31, 2015 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases Including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

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

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. 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:

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

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

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

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$2,702,607	\$1,724,909	\$910,547

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2016, PEWITT CONSOLIDATED INDEPENDENT SCHOOL DISTRICT reported a liability of \$1,724,909 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to PEWITT CONSOLIDATED INDEPENDENT SCHOOL DISTRICT. The amount recognized by PEWITT CONSOLIDATED 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 PEWITT CONSOLIDATED INDEPENDENT SCHOOL DISTRICT were as follows:

District's proportionate share of the collective net pension liability		\$ 1,724,909	
State' proportionate share that is associated with the District		3,670,675	
Total		\$ 5,395,584	

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

At August 31, 2015 the employer's proportion of the collective net pension liability was .000048797% which was an increase of 151.89% from its proportion measured as of August 31, 2014.

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 measurement period August 31, 2015, PEWITT CONSOLIDATED INDEPENDENT SCHOOL DISTRICT recognized pension expense of \$214,387 and revenue of \$307,572 for support provided by the State in the Government Wide Statement of Activities.

At August 31, 2016, PEWITT CONSOLIDATED 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 actuarial experience	\$ 11,038	\$ 66,290
Changes in actuarial assumptions	46,391	61,537
Difference between projected and actual investment earnings	424,807	196,903
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	381,000	352
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	280,430	
Total	\$ 1,143,666	\$ 325,082

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	\$ 95,045
2018	\$ 95,045
2019	\$ 95,045
2020	\$ 160,617
2021	\$ 53,728
Thereafter	\$ 38,674

K. HEALTH CARE COVERAGE - RETIREES AND ACTIVE EMPLOYEES

Retiree Health Care Coverage

Plan Description. PEWITT CONSOLIDATED INDEPENDENT SCHOOL DISTRICT participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit post-employment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retire under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Texas Insurance Code 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 writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by phoning the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet Website, www.trs.state.tx.us under the TRS Publications heading.

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 Contribution Rate for the State was 1.00% for 2014, 2015 and 2016. The contribution rate for the district was 0.55% for each of these three years. The contribution rate for active employees was 0.65% of the district payroll for each of the three years. 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 staff members funded by federal problems, the federal programs are required to contribution 1.0 %.

Contributions. Contributions made by the State on behalf of the District are recorded in the governmental funds financial statements as both revenue and expenditures. State contributions to TRS made on behalf of the District's employees as well as the District's required contributions and federal grant program contributions for the years ended August 31, 2016, 2015 and 2014 are as follows:

	2016	2015	2014	
Required District Contributions	\$ 280,430	\$ 214,387	\$ 225,562	
Actual District Contributions	280,430	214,387	225,562	
Federal Contributions	8,597	24,107	14,737	
State Contributions	307,572	307,572	349,138	
Employee Contributions	396,322	363,654	357,990	

Medicare Part D. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal year ended August 31, 2016, 2015, and 2014 the subsidy payments received by TRS-Care on-behalf of the District were \$8,597, \$24,107 and \$14,737 respectively. The information for the year ended August 31, 2016 is an estimate provided by the Teacher Retirement System. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

Active Employee Health Care Coverage

Plan Description. The District participates in TRS Active Care sponsored by the Teacher Retirement System of Texas and administered through Aetna and Caremark (pharmacy). TRS-Active Care provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance are also provided to active members and retirees. Authority for the plan can be found in the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and in the Texas Administrative Code, Title 34, Part 3, Chapter 41. The plan began operations on September 1, 2002. This is a premium-based plan. Payments are made on a monthly basis for all covered employees.

L. CHANGES IN LONG-TERM LIABILITIES

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

	Beginning Balance	Additions	Reductions	Adjustments	Ending Balance	Due Within One Year
Governmental Activities:						
Bonds Payable:						
General Obligation Bonds	1,535,000	-	(135,000)	-	1,400,000	140,000
Premium/discount on Bonds issued	149,178	-	(14,918)	-	134,260	-
Deferred Charge on Refunding	(88,806)	-	8,880	-	(79,926)	-
	<u>1,595,372</u>	<u>-</u>	<u>(141,038)</u>	<u>-</u>	<u>1,454,334</u>	<u>140,000</u>

M. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2016 are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

FUND	STATE ENTITLEMENTS	FEDERAL GRANTS	OTHER	TOTAL
General	226,495	-	-	226,495
Special Revenue	-	45,303	-	45,303
Debt Service	-	-	-	-
Total	<u>226,495</u>	<u>45,303</u>	<u>-</u>	<u>271,798</u>

N. 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	Total
Property Taxes	2,804,845	-	161,887	2,966,732
Penalties, Interest and Other Tax-related Income	71,535	-	6,811	78,346
Investment Income	17,727	242	587	18,556
Food Sales	-	154,009	-	154,009
Co-Curricular Student Activities	41,450	-	-	41,450
Other	52,634	128	-	52,762
	<u>2,988,191</u>	<u>154,379</u>	<u>169,285</u>	<u>3,311,855</u>

O. DEFERRED OUTFLOWS OF RESOURCES

The District refunded bonded indebtedness during the year ended August 31, 2014. The balance of deferred charge on refunding of \$79,926 is reflected as a deferred outflow of resources in the government wide statements. This deferral is being amortized over the repayment period of the refunding bonds and recognized as an outflow of resources each year as it is amortized.

P. DEFERRED INFLOWS OF RESOURCES

In the government wide statements and the governmental fund financial statements the amount of property taxes receivable expected to be collected in the future is reflected as a deferred inflow of resources and will be recognized as such each year as it is collected.

Q. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal 2016, the district purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

R. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS

The District participates in a shared service arrangement (“SSA”) for IDEA Part B – Formula, IDEA Part B - Pre-School, IDEA Part B ARRA Formula, and IDEA Part B ARRA-Preschool with Daingerfield-Lone Star Independent School District. Daingerfield-Lone Star is 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 Pewitt Consolidated Independent School District. The fiscal agent manager is responsible for all financial activities of the shared service arrangement. Presented below are the revenues and expenditures attributable to the District’s participation.

<u>IDEA Part B-Formula</u>						
	Revenues:					
	5952	Federal Revenue from Fiscal Agent			210,136	
	Expenditures:					
	6100	Payroll Costs			149,412	
	6200	Professional Services			49,629	
	6300	Supplies & Materials			6,141	
	6400	Other			4,954	
	6600	Capital Outlay			-	
<u>IDEA Part B-Pre School</u>						
	Revenues:					
	5952	Federal Revenue from Fiscal Agent			9,724	
	Expenditures:					
	6100	Payroll Costs			9,724	
	6300	Supplies & Materials			-	

S. COMMITMENTS AND CONTINGENCIES

The District has no significant commitments and contingencies.

T. LITIGATION

The District has no litigation or law suits in progress at August 31, 2016.

U. SUBSEQUENT EVENT

Administration has evaluated subsequent events through September 28, 2016, the financial statement issuance date.

PEWITT CONSOLIDATED 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

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.000048797%	0.000032127%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 1,724,904	\$ 858,156
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	3,670,675	3,317,245
Total	<u>\$ 5,395,579</u>	<u>\$ 4,175,401</u>
District's Covered-Employee Payroll	\$ 5,504,467	\$ 5,429,270
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	31.33%	20.55%
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."

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

EXHIBIT G-3

	2016	2015
Contractually Required Contribution	\$ 396,322	\$ 363,627
Contribution in Relation to the Contractually Required Contribution	(396,322)	(363,627)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
District's Covered-Employee Payroll	\$ 5,504,467	\$ 5,429,270
Contributions as a Percentage of Covered-Employee Payroll	7.20%	6.80%

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."

PEWITT CONSOLIDATED INDEPENDENT SCHOOL
DISTRICT NOTES TO REQUIRED SUPPLEMENTARY
INFORMATION FOR THE 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

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

Mortality Assumptions

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

Other Demographic Assumptions

- 8 Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
- 9 There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
- 10 Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.

- 11 Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
- 12 For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

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

COMBINING AND OTHER STATEMENTS

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

Data Control Codes	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program	
ASSETS					
1110	Cash and Cash Equivalents	\$ (17,736)	\$ (11,154)	\$ (18)	\$ 148,501
1120	Investments - Current	-	-	-	-
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes (Credit)	-	-	-	-
1240	Receivables from Other Governments	17,736	11,154	18	-
1000	Total Assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 148,501</u>
LIABILITIES					
2180	Due to Other Governments	\$ -	\$ -	\$ -	\$ -
2000	Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES					
2601	Unavailable Revenue - Property Taxes	-	-	-	-
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	148,501
3480	Retirement of Long-Term Debt	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>148,501</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 148,501</u>

255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income	410 State Textbook Fund	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ (2,892)	\$ (13,503)	\$ 4,788	\$ 107,986	\$ 84,935	\$ 192,921
-	-	-	-	152,312	152,312
-	-	-	-	30,537	30,537
-	-	-	-	(22,195)	(22,195)
2,892	13,503	-	45,303	-	45,303
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,788</u>	<u>\$ 153,289</u>	<u>\$ 245,589</u>	<u>\$ 398,878</u>
\$ -	\$ -	\$ 4,788	\$ 4,788	\$ -	\$ 4,788
-	-	4,788	4,788	-	4,788
-	-	-	-	8,342	8,342
-	-	-	-	8,342	8,342
-	-	-	148,501	-	148,501
-	-	-	-	237,247	237,247
-	-	-	148,501	237,247	385,748
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,788</u>	<u>\$ 153,289</u>	<u>\$ 245,589</u>	<u>\$ 398,878</u>

PEWITT CONSOLIDATED 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	211 ESEA I, A Improving Basic Program	224 IDEA - Part B Formula	225 IDEA - Part B Preschool	240 National Breakfast and Lunch Program
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ 154,251
5800 State Program Revenues	-	-	-	3,008
5900 Federal Program Revenues	<u>193,359</u>	<u>210,136</u>	<u>9,724</u>	<u>426,930</u>
5020 Total Revenues	<u>193,359</u>	<u>210,136</u>	<u>9,724</u>	<u>584,189</u>
EXPENDITURES:				
Current:				
0011 Instruction	181,232	205,182	9,724	-
0013 Curriculum and Instructional Staff Development	7,344	4,954	-	-
0021 Instructional Leadership	4,783	-	-	-
0035 Food Services	-	-	-	607,922
Debt Service:				
0071 Principal on Long Term Debt	-	-	-	-
0072 Interest on Long Term Debt	-	-	-	-
6030 Total Expenditures	<u>193,359</u>	<u>210,136</u>	<u>9,724</u>	<u>607,922</u>
1200 Net Change in Fund Balance	-	-	-	(23,733)
0100 Fund Balance - September 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>172,234</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 148,501</u>

255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income	410 State Textbook Fund	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 128	\$ 154,379	\$ 169,285	\$ 323,664
-	-	81,890	84,898	17,866	102,764
53,340	14,802	-	908,291	-	908,291
53,340	14,802	82,018	1,147,568	187,151	1,334,719
49,333	12,452	82,018	539,941	-	539,941
2,790	2,350	-	17,438	-	17,438
1,217	-	-	6,000	-	6,000
-	-	-	607,922	-	607,922
-	-	-	-	135,000	135,000
-	-	-	-	41,950	41,950
53,340	14,802	82,018	1,171,301	176,950	1,348,251
-	-	-	(23,733)	10,201	(13,532)
-	-	-	172,234	227,046	399,280
\$ -	\$ -	\$ -	\$ 148,501	\$ 237,247	\$ 385,748

T.E.A. REQUIRED SCHEDULES

PEWITT CONSOLIDATED 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	1.040000	0.060000	157,478,636
2009	1.040000	0.060000	204,244,091
2010	1.040000	0.060000	241,540,636
2011	1.040000	0.055000	306,217,260
2012	1.040000	0.065000	285,611,584
2013	1.040000	0.065000	283,477,014
2014	1.040000	0.058000	288,335,246
2015	1.040000	0.058000	284,292,350
2016 (School year under audit)	1.040000	0.058000	275,624,590
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
\$ 109,341	\$ -	\$ 15,777	\$ 3,141	\$ -	\$ 90,423
16,158	-	1,950	189	-	14,019
21,490	-	2,327	305	-	18,858
26,907	-	2,855	480	-	23,572
32,317	-	3,624	301	-	28,392
46,269	-	8,459	540	-	37,270
66,518	-	14,479	925	-	51,114
101,971	-	22,407	1,380	-	78,184
147,063	-	51,104	3,147	-	92,812
-	3,026,358	2,681,863	151,479	(49,310)	143,706
<u>\$ 568,034</u>	<u>\$ 3,026,358</u>	<u>\$ 2,804,845</u>	<u>\$ 161,887</u>	<u>\$ (49,310)</u>	<u>\$ 578,350</u>

PEWITT CONSOLIDATED 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	\$ 142,300	\$ 142,300	\$ 154,251	\$ 11,951
5800 State Program Revenues	3,500	3,500	3,008	(492)
5900 Federal Program Revenues	420,069	420,069	426,930	6,861
5020 Total Revenues	<u>565,869</u>	<u>565,869</u>	<u>584,189</u>	<u>18,320</u>
EXPENDITURES:				
0035 Food Services	<u>565,869</u>	<u>607,831</u>	<u>607,922</u>	<u>(91)</u>
6030 Total Expenditures	<u>565,869</u>	<u>607,831</u>	<u>607,922</u>	<u>(91)</u>
1200 Net Change in Fund Balances	-	(41,962)	(23,733)	18,229
0100 Fund Balance - September 1 (Beginning)	<u>172,234</u>	<u>172,234</u>	<u>172,234</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 172,234</u>	<u>\$ 130,272</u>	<u>\$ 148,501</u>	<u>\$ 18,229</u>

PEWITT CONSOLIDATED 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	\$ 150,861	\$ 150,861	\$ 169,285	\$ 18,424
5800	State Program Revenues	17,943	17,943	17,866	(77)
5020	Total Revenues	168,804	168,804	187,151	18,347
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	135,000	135,000	135,000	-
0072	Interest on Long Term Debt	41,950	41,950	41,950	-
0073	Bond Issuance Cost and Fees	500	500	-	500
6030	Total Expenditures	177,450	177,450	176,950	500
1200	Net Change in Fund Balances	(8,646)	(8,646)	10,201	18,847
0100	Fund Balance - September 1 (Beginning)	227,046	227,046	227,046	-
3000	Fund Balance - August 31 (Ending)	\$ 218,400	\$ 218,400	\$ 237,247	\$ 18,847

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



ARNOLD, WALKER, ARNOLD, & Co., P.C.
Certified Public Accountants and Consultants

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 Certified Public Accountants
 Texas State Society Of
 Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
 AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
 PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
 Pewitt Consolidated Independent School District
 Omaha, Texas

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 the Pewitt Consolidated Independent School District, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated September 28, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Arnold, Walker, Arnold & Co., P.C.

Arnold, Walker, Arnold & Co., P.C.

September 28, 2016



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

Board of Trustees
Pewitt Consolidated Independent School District
Omaha, Texas

Report on Compliance for Each Major Federal Program

We have audited the Pewitt Consolidated 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 the District's major federal programs for the year ended August 31, 2016. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

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September 28, 2016

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

I. Summary of the Auditor's Results:

- a. The type of report issued on the financial statements of the Pewitt Consolidated Independent School District was an unmodified opinion.
- b. Where applicable, a statement that control deficiencies in internal control were disclosed by the audit of the financial statements and whether they were material weaknesses. NONE
- c. A statement as to whether the audit disclosed any noncompliance which is material to the financial statements of the auditee. NONE
- d. Where applicable, a statement that control deficiencies in internal control over major programs were disclosed by the audit and whether any such conditions were material weaknesses. NONE
- e. The type of report the auditor issued on compliance for major programs. unmodified opinion
- f. A statement as to whether the audit disclosed any audit findings which the auditor is required to report under Section __.510(a). These include: NONE
- g. An identification of major programs: National School Lunch Program CFDA# 10.555; ESEA Title I Part A, CFDA#84.010A.
- h. The dollar threshold used to distinguish between Type A and Type B programs. \$750,000
- i. A statement as to whether the auditee 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*.

NONE

III. Findings and Questioned Costs for Federal Awards Including Audit Findings as Described in I.f Above

None

PEWITT CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2016

PRIOR YEAR'S FINDINGS/ NONCOMPLIANCE

N/A

STATUS OF PRIOR YEAR'S FINDINGS/ NONCOMPLIANCE

N/A

PEWITT CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2016

CORRECTIVE ACTION

N/A

The contact at the District is Andy Reddock at (903) 884-2136.

PEWITT CONSOLIDATED 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 Other Entities</u>			
*IDEA - Part B, Formula	84.027A	1660006172905	\$ 210,136
*IDEA - Part B, Preschool	84.173A	1660006172905	<u>9,724</u>
Total Special Education Cluster (IDEA)			<u>219,860</u>
Total Passed Through Other Entities			<u>\$ 219,860</u>
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	16610101172905	\$ 193,359
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	16696001172905	14,802
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	16694501172905	<u>53,340</u>
Total Passed Through State Department of Education			<u>\$ 261,501</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>\$ 481,361</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through TX Medicaid/Healthcare Partnership</u>			
Medicaid Administrative Claiming Program - MAC	93.778	N/A	<u>\$ 92,383</u>
Total Passed Through TX Medicaid/Healthcare Partnership			<u>\$ 92,383</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>\$ 92,383</u>
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553		\$ 98,390
*National School Lunch Program - Cash Assistance	10.555		288,547
*National School Lunch Prog. - Non-Cash Assistance	10.555		<u>39,993</u>
Total CFDA Number 10.555			<u>328,540</u>
Total Child Nutrition Cluster			<u>426,930</u>
Total Passed Through the State Department of Agriculture			<u>\$ 426,930</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>\$ 426,930</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 1,000,674</u></u>

*Clustered Programs

PEWITT CONSOLIDATED INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2016

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.

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 which is a Governmental Fund type.

With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured 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.

Federal grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant, and, accordingly, when such funds are received, they are recorded as deferred revenues until earned.

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 90 days after the end date of the period of performance as specified in the terms and conditions of the federal award under 2 CFR Section 200.343b (Uniform Guidance).

CFDA number 10.550 pertains to food commodities distributed by USDA under the following categorical programs (as applicable): the National School Lunch Program (CFDA 10.555), the Child and Adult Care Food Program (CFDA 10.558), the Summer Food Service Program (CFDA 10.559), the Commodity Supplemental Food Program (CFDA 10.565), and the Food Distribution Program on Indian Reservations (CFDA 10.567). USDA deleted this number from the CFDA on May 6, 2008. The audit covering PEWITT CONSOLIDATED Independent School District fiscal year beginning September 1, 2013, and future audits, will therefore identify commodity assistance by the CFDA numbers of the programs under which USDA donated the commodities.

The District has not elected to use the 10% de minimis indirect cost rate.

SCHOOLS FIRST QUESTIONNAIRE

PEWITT CONSOLIDATED INDEPENDENT SCHOOL DISTRICT

Fiscal Year 2016

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	No
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	0
SF11	Net Pension Assets (1920) at fiscal year-end.	0
SF12	Net Pension Liabilities (2540) at fiscal year-end.	1724909
SF13	Pension Expense (6147) at fiscal year-end.	152821