

SOMERVILLE
INDEPENDENT SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED AUGUST 31, 2016

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Somerville Independent School District
Annual Financial Report
For The Year Ended August 31, 2016

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
 INTRODUCTORY SECTION		
Certificate of Board.....	2	
 FINANCIAL SECTION		
Independent Auditors' Report.....	4	
Management's Discussion and Analysis (Required Supplementary Information).....	8	
 <u>Basic Financial Statements</u>		
Government-wide Financial Statements:		
Statement of Net Position.....	15	A-1
Statement of Activities.....	16	B-1
Fund Financial Statements:		
Balance Sheet - Governmental Funds.....	17	C-1
Reconciliation of the Governmental Funds		
Balance Sheet to the Statement of Net Position.....	18	C-1R
Statement of Revenues, Expenditures, and Changes in		
Fund Balances - Governmental Funds.....	19	C-2
Reconciliation of the Statement of Revenues, Expenditures, and Changes in		
Fund Balances of Governmental Funds to the Statement of Activities.....	20	C-3
Statement of Fiduciary Net Position - Fiduciary Funds.....	21	E-1
Notes to the Financial Statements	22	
 <u>Required Supplementary Information</u>		
Budgetary Comparison Schedules:		
General Fund.....	44	G-1
Schedule of the District's Proportionate Share of the		
Net Pension Liability - Teacher Retirement System of Texas (TRS).....	46	G-2
Schedule of District Contributions - Teacher Retirement System of Texas (TRS).....	47	G-3
 <u>Combining Statements as Supplementary Information:</u>		
Combining Balance Sheet - All Nonmajor Governmental Funds.....	49	H-1
Combining Statement of Revenues, Expenditures, and Changes in		
Fund Balances - All Nonmajor Governmental Funds.....	50	H-2
 Special Revenue Funds:		
Combining Balance Sheet - Nonmajor Special Revenue Funds.....	51	H-3
Combining Statement of Revenues, Expenditures, and Changes		
in Fund Balances - Nonmajor Special Revenue Funds.....	54	H-4

Somerville Independent School District
Annual Financial Report
For The Year Ended August 31, 2016

TABLE OF CONTENTS

	<u>Page</u>	<u>Exhibit</u>
Permanent Funds:		
Combining Balance Sheet - Nonmajor Permanent Funds.....	57	H-5
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances - Nonmajor Permanent Funds.....	58	H-6
OTHER SUPPLEMENTARY INFORMATION SECTION		
Schedule of Delinquent Taxes Receivable.....	60	J-1
Budgetary Comparison Schedules Required by the Texas Education Agency:		
National School Breakfast and Lunch Program.....	62	J-2
Debt Service Fund.....	63	J-3
Independent Auditors' Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	64	
Schedule of Findings and Questioned Costs	66	
Summary Schedule of Prior Audit Findings.....	67	
Schedule of Required Responses to Selected School First Indicators.....	68	L-1

Introductory Section

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CERTIFICATE OF BOARD

Somerville Independent School District
Name of School District

Burleson
County

026-902
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 11th day of January, 2017

Linda Pinkerton
Signature of Board Secretary

Byron Cook
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)

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Financial Section

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Independent Auditors' Report

To the Board of Trustees of
Somerville Independent School District:

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

Management's Responsibility for the Financial Statements

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

Auditors' 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 auditors' 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 District'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 District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

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Governmental
Audit Quality Center

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, budgetary comparison information, schedule of the District's proportionate share of the net pension liability, and schedule of District contributions, identified as Required Supplementary Information in the table of contents, 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 Somerville Independent School District's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and other supplementary information are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining and individual nonmajor fund financial statements and other supplementary information 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 nonmajor fund financial statements and other supplementary information are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 10, 2017 on our consideration of Somerville Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Somerville Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,

The signature is written in a stylized, cursive script. The first part of the signature, "BELT HARRIS", is in a larger, more ornate script, while "PECHACEK, LLLP" is in a smaller, simpler script.

Belt Harris Pechacek, LLLP
Certified Public Accountants
Bellville, Texas
January 10, 2017

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Management's Discussion and Analysis

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SOMERVILLE INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended August 31, 2016

This discussion and analysis of the Somerville Independent School District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended August 31, 2016. It should be read in conjunction with the District's financial statements.

FINANCIAL HIGHLIGHTS

- The District's total combined net position at August 31, 2016 was \$3,360,583.
- For the fiscal year ended August 31, 2016, the District's general fund reported a total fund balance of \$1,657,924, of which \$71,352 was committed for self-insurance, \$26,511 was committed for other purposes, and \$1,560,061 was unassigned.
- At the end of the fiscal year, the District's governmental funds (the general fund plus all state and federal grant funds and the debt service fund) reported combined ending fund balances of \$11,451,714.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report consists of three parts – *Management's Discussion and Analysis* (this section), the *Basic Financial Statements*, and *Required Supplementary Information*. The basic 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 fiduciary resources belong. This fund includes student activity funds.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The notes to the financial statements are followed by a section entitled *Required Supplementary Information* that further explains and supports the information in the financial statements.

GOVERNMENT-WIDE FINANCIAL 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 District's assets and liabilities. All of the current period's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

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

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

- 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, one needs to consider additional non-financial factors such as changes in the District's tax base, staffing patterns, enrollment, and attendance.

The government-wide financial statements of the District include the *governmental activities*. Most of the District's basic services such as instruction, extracurricular activities, curriculum and staff development, health services, general administration, and plant operation and maintenance are included in *governmental activities*. Locally assessed property taxes, together with State foundation program entitlements, which are based upon student enrollment and attendance, finance most of the governmental 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 simply accounting devices that are used to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and other funds are mandated by bond agreements or bond covenants.
- The Board of Trustees establishes other funds to control and manage money set aside for particular purposes or to show that the District is properly using certain taxes and grants.
- Other funds are used to account for assets held by the District in a custodial capacity – these assets do not belong to the District, but the District is responsible to properly account for them.

The District has the following 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.
- *Fiduciary funds* – the District serves as the trustee, or fiduciary, for certain funds such as student activity funds. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities that are reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its governmental operations.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

The District's combined net position was \$3,360,583 at August 31, 2016. *Table 1* focuses on net position while *Table 2* shows the revenues and expenses that changed the net position balance during the fiscal year ended August 31, 2016. Table 1 indicates the overall condition of the District increased, which was the result of an increase in property taxes. Table 2 reflects the District reporting an increase in revenue from charges for services, operating grants and contributions, property taxes, and miscellaneous sources when compared to the prior year. Additionally, the District spent more during the fiscal year. The District reported increased expenses related to instruction and bond issuance costs and fees.

Table 1
Net Position

Description	Governmental Activities		Total Change
	2016	2015	2016-2015
Current assets	\$ 12,113,073	\$ 2,260,604	\$ 9,852,469
Capital assets	3,850,651	3,827,315	23,336
Total Assets	15,963,724	6,087,919	9,875,805
Deferred charges on refunding	95,572	104,260	(8,688)
Deferred outflows related to pensions	309,055	88,175	220,880
Total Deferred Outflows of Resources	404,627	192,435	212,192
Current liabilities	456,416	328,235	128,181
Long-term liabilities	12,499,810	2,760,771	9,739,039
Total Liabilities	12,956,226	3,089,006	9,867,220
Deferred inflows related to pensions	51,542	113,161	(61,619)
Total Deferred Inflows of Resources	51,542	113,161	(61,619)
Net Position:			
Net investment in capital assets	1,443,273	1,357,579	85,694
Restricted	395,783	375,240	20,543
Unrestricted	1,521,527	1,345,368	176,159
Total Net Position	\$ 3,360,583	\$ 3,078,187	\$ 282,396

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

Table 2
Changes in Net Position

	Governmental Activities		Total Change
	2016	2015	2016-2015
Revenues			
Program revenues:			
Charges for services	\$ 136,466	\$ 126,403	\$ 10,063
Operating grants and contributions	819,519	737,413	82,106
General revenues:			
Property taxes	3,186,185	2,497,819	688,366
State foundation program	2,094,379	2,113,606	(19,227)
Investment earnings	16,376	16,632	(256)
Miscellaneous	442,481	202,447	240,034
Total Revenue	6,695,406	5,694,320	1,001,086
Expenses			
Instruction	3,200,173	2,777,917	422,256
Instructional resources and media services	62,554	40,306	22,248
Curriculum and staff development	20,923	23,439	(2,516)
Instructional leadership	105,500	12,901	92,599
School leadership	261,323	309,695	(48,372)
Guidance, counseling, and evaluation services	131,798	63,057	68,741
Health services	33,696	33,064	632
Student (pupil) transportation	226,682	239,835	(13,153)
Food services	366,038	356,669	9,369
Co-curricular/extracurricular activities	428,544	387,153	41,391
General administration	433,778	400,249	33,529
Plant maintenance and operations	675,948	807,879	(131,931)
Security and monitoring	6,362	3,941	2,421
Data processing services	108,386	81,581	26,805
Interest on long-term debt	56,431	73,635	(17,204)
Bond issuance costs and fees	165,298	500	164,798
Payments related to shared services arrangements	47,889	47,003	886
Other intergovernmental charges	81,687	72,225	9,462
Total Expenses	6,413,010	5,731,049	681,961
Change in Net Position	282,396	(36,729)	319,125
Beginning net position	3,078,187	3,114,916	(36,729)
Ending Net Position	\$ 3,360,583	\$ 3,078,187	\$ 282,396

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

At the close of the fiscal year ending August 31, 2016, the District's governmental funds reported a combined fund balance of \$11,451,714. This compares to a combined fund balance of \$1,738,120 at August 31, 2015. The fund balance in the general fund increased due to an increase in revenues received from local sources, while the capital project fund fund balance increased as a result of proceeds received from the issuance of unlimited tax school building bonds from which projects are being funded beyond the current fiscal year.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

GENERAL FUND BUDGETARY HIGHLIGHTS

In accordance with State law and generally accepted accounting standards, the District prepares an annual budget for the general fund, the food service special revenue fund, and the debt service fund. The District budgets the capital projects fund for each *project*, which normally covers multiple years. Special revenue funds have budgets approved by the funding agency and are amended throughout the year as required.

During the period ended August 31, 2016, the District amended its budget as required by State law and to reflect current levels of revenue and anticipated expenses. There were no material changes between the original budget and the final amended budget. The general fund's actual revenues were less than budgeted revenues by \$158,801 and the actual expenditures were less than budgeted expenditures by \$228,500.

CAPITAL ASSETS

Capital assets are generally defined as those items that have useful lives of two years or more and have an initial cost or value (if donated) of an amount determined by the Board. During the fiscal year ended August 31, 2016, the District used a capitalization threshold of \$5,000, which means that all capital type assets, including library books, with a cost or initial value of less than \$5,000 were not included in the capital assets inventory.

At August 31, 2016, the District had a total of \$13,358,008 invested in capital assets such as land, buildings, and District equipment. This total includes \$399,026 invested during the fiscal year ended August 31, 2016.

More detailed information about the District's capital assets can be found in the notes to the financial statements.

LONG-TERM DEBT

At year end, the District had \$10,949,508 in general obligation bonds and capital leases outstanding versus \$2,298,399 last year. The net increase is due to principal payments paid this year totaling \$208,891, combined with the issuance of the unlimited tax school building bond, series 2016 in the amount of \$8,860,000.

More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.

ECONOMIC FACTORS AND THE NEXT YEAR'S BUDGETS

The following factors were considered in establishing the District's budget for 2016-2017:

- Student enrollment for 2016-2017 is expected to remain approximately the same when compared to 2015-2016. District officials anticipate no significant change in the rate of attendance for the 2017 school year compared to the year 2016; therefore, the refined daily attendance, which is a significant component of the formula upon which State Foundation Program entitlements are based, is not projected to change significantly for 2016-2017.
- The District's total tax rate increased from the previous year to \$1.33537 per \$100 valuation with the Maintenance and Operations tax rate at \$1.04 and the Interest and Sinking tax rate at \$0.29537. The entire increase in tax rate was in the Interest and Sinking portion.
- The District has construction and renovation projects currently in progress or planned for fiscal year 2017 which will be expended out of proceeds from the issuance of unlimited tax school building bonds, series 2016.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended August 31, 2016

- No new programs were added and no significant changes to existing programs occurred during the current year. No significant changes are planned for 2016-2017.
- District officials anticipate that the fund balance for the general fund will not materially change for 2016-2017 compared to 2015-2016.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and creditors with a general overview of the District's finances and to demonstrate the District's commitment to accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Somerville Independent School District Administration office at (979) 596-2154.

Basic Financial Statements

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SOMERVILLE INDEPENDENT SCHOOL DISTRICT**STATEMENT OF NET POSITION**

AUGUST 31, 2016

		1
Data Control Codes		Governmental Activities
ASSETS:		
1110	Cash and Cash Equivalents	\$ 2,255,484
1120	Current Investments	9,481,339
1220	Property Taxes Receivable (Delinquent)	455,990
1230	Allowance for Uncollectible Taxes	(152,876)
1240	Due from Other Governments	72,934
1410	Prepaid Items	202
Capital Assets:		
1510	Land	153,935
1520	Buildings and Improvements, Net	3,029,883
1530	Furniture and Equipment, Net	565,583
1580	Construction in Progress	101,250
1000	Total Assets	<u>15,963,724</u>
DEFERRED OUTFLOWS OF RESOURCES:		
1700	Deferred Charges on Refunding	95,572
1705	Deferred Outflows Related to Pensions	309,055
1700	Total Deferred Outflows of Resources	<u>404,627</u>
LIABILITIES:		
2120	Short-Term Debt Payable	78,426
2140	Interest Payable	25,278
2165	Accrued Liabilities	188,037
2180	Due to Other Governments	146,699
2300	Unearned Revenue	17,976
Noncurrent Liabilities:		
2501	Due Within One Year	350,000
2502	Due in More Than One Year	11,455,385
2540	Net Pension Liability	694,425
2000	Total Liabilities	<u>12,956,226</u>
DEFERRED INFLOWS OF RESOURCES:		
2605	Deferred Inflows Related to Pensions	51,542
2600	Total Deferred Inflows of Resources	<u>51,542</u>
NET POSITION:		
3200	Net Investment in Capital Assets	1,443,273
Restricted For:		
3820	Federal and State Programs	16,382
3850	Debt Service	193,504
3890	Other Purposes	185,897
3900	Unrestricted	1,521,527
3000	Total Net Position	<u>\$ 3,360,583</u>

The accompanying notes are an integral part of this statement.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Functions/Programs	1 Expenses	3 Program Revenues		4 Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
			Charges for Services			
						Governmental Activities
	Governmental Activities:					
11	Instruction	\$ 3,200,173	\$ 4,006	\$ 382,548	\$ (2,813,619)	
12	Instructional Resources and Media Services	62,554	--	20,037	(42,517)	
13	Curriculum and Staff Development	20,923	--	19,223	(1,700)	
21	Instructional Leadership	105,500	--	5,105	(100,395)	
23	School Leadership	261,323	--	18,142	(243,181)	
31	Guidance, Counseling, & Evaluation Services	131,798	--	6,113	(125,685)	
33	Health Services	33,696	--	1,534	(32,162)	
34	Student Transportation	226,682	--	9,213	(217,469)	
35	Food Service	366,038	60,423	258,821	(46,794)	
36	Cocurricular/Extracurricular Activities	428,544	70,677	13,448	(344,419)	
41	General Administration	433,778	--	20,696	(413,082)	
51	Facilities Maintenance and Operations	675,948	1,360	29,196	(645,392)	
52	Security and Monitoring Services	6,362	--	192	(6,170)	
53	Data Processing Services	108,386	--	22,558	(85,828)	
72	Interest on Long-term Debt	56,431	--	10,464	(45,967)	
73	Bond Issuance Costs and Fees	165,298	--	--	(165,298)	
93	Payments Related to Shared Services Arrangements	47,889	--	2,229	(45,660)	
99	Other Intergovernmental Charges	81,687	--	--	(81,687)	
TG	Total Governmental Activities	6,413,010	136,466	819,519	(5,457,025)	
TP	Total Primary Government	\$ 6,413,010	\$ 136,466	\$ 819,519	(5,457,025)	
General Revenues:						
MT	Property Taxes, Levied for General Purposes				2,977,993	
DT	Property Taxes, Levied for Debt Service				208,192	
IE	Investment Earnings				16,376	
GC	Grants and Contributions Not Restricted to Specific Programs				2,094,379	
MI	Miscellaneous				442,481	
TR	Total General Revenues				5,739,421	
CN	Change in Net Position				282,396	
NB	Net Position - Beginning				3,078,187	
NE	Net Position - Ending				\$ 3,360,583	

The accompanying notes are an integral part of this statement.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT**BALANCE SHEET - GOVERNMENTAL FUNDS**

AUGUST 31, 2016

Data Control Codes	10 General Fund	60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
ASSETS:				
1110 <i>Cash and Cash Equivalents</i>	\$ 1,784,034	\$ 47,059	\$ 424,390	\$ 2,255,483
1120 <i>Current Investments</i>	130,391	9,350,948	--	9,481,339
1220 <i>Taxes Receivable, Delinquent</i>	418,617	--	37,374	455,990
1230 <i>Allowance for Uncollectible Taxes</i>	(138,949)	--	(13,927)	(152,876)
1240 <i>Due from Other Governments</i>	--	--	72,934	72,934
1260 <i>Due from Other Funds</i>	72,934	--	--	72,934
1410 <i>Prepaid Items</i>	202	--	--	202
1000 Total Assets	<u>2,267,228</u>	<u>9,398,007</u>	<u>520,771</u>	<u>12,186,006</u>
LIABILITIES:				
Current Liabilities:				
2140 <i>Interest Payable</i>	\$ --	\$ --	\$ 5,533	\$ 5,533
2160 <i>Accrued Wages Payable</i>	176,864	--	5,098	181,962
2170 <i>Due to Other Funds</i>	--	--	72,934	72,934
2180 <i>Due to Other Governments</i>	146,699	--	--	146,699
2200 <i>Accrued Expenditures</i>	6,075	--	--	6,075
2300 <i>Unearned Revenue</i>	--	--	17,976	17,976
2000 Total Liabilities	<u>329,638</u>	<u>--</u>	<u>101,541</u>	<u>431,179</u>
DEFERRED INFLOWS OF RESOURCES:				
2600 <i>Unavailable Revenue - Property Taxes</i>	279,666	--	23,447	303,113
2600 Total Deferred Inflows of Resources	<u>279,666</u>	<u>--</u>	<u>23,447</u>	<u>303,113</u>
FUND BALANCES:				
Restricted Fund Balances:				
3450 <i>Federal/State Funds Grant Restrictions</i>	--	--	16,382	16,382
3480 <i>Retirement of Long-Term Debt</i>	--	--	193,504	193,504
3490 <i>Other Restrictions of Fund Balance</i>	--	9,398,007	185,897	9,583,904
Committed Fund Balances:				
3540 <i>Self-Insurance</i>	71,352	--	--	71,352
Assigned Fund Balances:				
3590 <i>Other Assigned Fund Balance</i>	26,511	--	--	26,511
3600 <i>Unassigned</i>	1,560,061	--	--	1,560,061
3000 Total Fund Balances	<u>1,657,924</u>	<u>9,398,007</u>	<u>395,783</u>	<u>11,451,714</u>
4000 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,267,228</u>	<u>\$ 9,398,007</u>	<u>\$ 520,771</u>	<u>\$ 12,186,006</u>

The accompanying notes are an integral part of this statement.

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

Total fund balances - governmental funds balance sheet	\$ 11,451,714
--	---------------

Amounts reported for governmental activities in the Statement of Net Position
are different because:

Capital assets used in governmental activities are not reported in the funds.	3,850,651
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	303,113
Payables for bond principal which are not due in the current period are not reported in the funds.	(11,443,732)
Payables for bond interest which are not due in the current period are not reported in the funds.	8,893
Payables for notes which are not due in the current period are not reported in the funds.	(344,507)
The gain or loss on the disposal of capital assets is not reported in the funds.	(28,637)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(694,425)
Deferred inflows of resources related to the Teacher Retirement System (TRS) are not reported in the funds.	(51,542)
Deferred outflows of resources related to TRS are not reported in the funds.	309,055

Net position of governmental activities - Statement of Net Position	\$ <u>3,360,583</u>
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The accompanying notes are an integral part of this statement.

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

Data Control Codes	10 General Fund	60 Capital Projects Fund	Other Governmental Funds	98 Total Governmental Funds
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ 3,106,519	\$ 1,537	\$ 334,578	\$ 3,442,634
5800 <i>State Program Revenues</i>	2,325,544	--	90,815	2,416,359
5900 <i>Federal Program Revenues</i>	8,541	--	488,998	497,539
5020 <i>Total Revenues</i>	<u>5,440,604</u>	<u>1,537</u>	<u>914,391</u>	<u>6,356,532</u>
EXPENDITURES:				
Current:				
0011 <i>Instruction</i>	2,583,083	--	245,986	2,829,069
0012 <i>Instructional Resources and Media Services</i>	35,252	--	18,088	53,340
0013 <i>Curriculum and Staff Development</i>	821	--	19,174	19,995
0021 <i>Instructional Leadership</i>	91,551	--	190	91,741
0023 <i>School Leadership</i>	232,923	--	6,302	239,225
0031 <i>Guidance, Counseling, & Evaluation Services</i>	118,515	--	--	118,515
0033 <i>Health Services</i>	32,585	--	--	32,585
0034 <i>Student Transportation</i>	241,019	--	1,797	242,816
0035 <i>Food Service</i>	--	--	353,550	353,550
0036 <i>Cocurricular/Extracurricular Activities</i>	275,996	--	72,501	348,497
0041 <i>General Administration</i>	401,039	--	1,896	402,935
0051 <i>Facilities Maintenance and Operations</i>	761,090	--	--	761,090
0052 <i>Security and Monitoring Services</i>	4,082	--	--	4,082
0053 <i>Data Processing Services</i>	110,320	--	18,408	128,728
0071 <i>Principal on Long-term Debt</i>	78,873	--	130,000	208,873
0072 <i>Interest on Long-term Debt</i>	13,578	--	64,250	77,828
0073 <i>Bond Issuance Costs and Fees</i>	--	164,798	500	165,298
0081 <i>Capital Outlay</i>	--	103,530	--	103,530
0093 <i>Payments to Shared Services Arrangements</i>	47,889	--	--	47,889
0099 <i>Other Intergovernmental Charges</i>	81,687	--	--	81,687
6030 <i>Total Expenditures</i>	<u>5,110,303</u>	<u>268,328</u>	<u>932,642</u>	<u>6,311,273</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>				
1100 <i>Expenditures</i>	<u>330,301</u>	<u>(266,791)</u>	<u>(18,251)</u>	<u>45,259</u>
Other Financing Sources and (Uses):				
7911 <i>Capital-Related Debt Issued (Regular Bonds)</i>	--	8,860,000	--	8,860,000
7915 <i>Transfers In</i>	--	--	35,257	35,257
7916 <i>Premium or Discount on Issuance of Bonds</i>	--	804,798	3,537	808,335
8911 <i>Transfers Out</i>	(35,257)	--	--	(35,257)
7080 <i>Total Other Financing Sources and (Uses)</i>	<u>(35,257)</u>	<u>9,664,798</u>	<u>38,794</u>	<u>9,668,335</u>
1200 <i>Net Change in Fund Balances</i>	<u>295,044</u>	<u>9,398,007</u>	<u>20,543</u>	<u>9,713,594</u>
0100 <i>Fund Balances - Beginning</i>	1,362,880	--	375,240	1,738,120
3000 <i>Fund Balances - Ending</i>	<u>\$ 1,657,924</u>	<u>\$ 9,398,007</u>	<u>\$ 395,783</u>	<u>\$ 11,451,714</u>

The accompanying notes are an integral part of this statement.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

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

Net change in fund balances - total governmental funds \$ 9,713,594

Amounts reported for governmental activities in the Statement of Activities
(SOA) are different because:

Capital outlays are not reported as expenses in the SOA.	399,026
The depreciation of capital assets used in governmental activities is not reported in the funds.	(325,135)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	25,530
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	130,000
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	78,891
Bond issuance costs and similar items are amortized in the SOA but not in the funds.	(771,655)
(Increase) decrease in accrued interest from beginning of period to end of period.	13,337
The gain or loss on the disposal of capital assets is not reported in the funds.	(79,193)
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(8,860,000)
GASB 68 required certain expenditures to be de-expended and recorded as deferred outflows of resources.	313,344
The District's share of the unrecognized deferred inflows and outflows for TRS was amortized.	(355,344)

Change in net position of governmental activities - Statement of Activities \$ 282,396

The accompanying notes are an integral part of this statement.

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

Data Control Codes		Agency Funds
	ASSETS:	
1110	<i>Cash and Cash Equivalents</i>	\$ 50,393
1000	Total Assets	<u>50,393</u>
	LIABILITIES:	
	Current Liabilities:	
2190	<i>Due to Student Groups</i>	\$ 50,393
2000	Total Liabilities	<u>50,393</u>
	NET POSITION:	
3000	Total Net Position	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

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

A. Summary of Significant Accounting Policies

The basic financial statements of Somerville Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Board of School Trustees (the "Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency (TEA) or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental reporting entity and there are no component units included within the District's reporting entity.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Financial Statements: The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Capital Projects Fund: This fund is used to account for revenues and expenditures related to projects financed by the proceeds of bond issues or for capital projects otherwise mandated to be accounted for in this fund. This fund is not required to be budgeted on an annual basis, rather expenditures of this fund are controlled by project budget.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

In addition, the District reports the following fund types:

Special Revenue Funds: These funds are used to account for revenues and expenditures related to grant awards and entitlements from federal, state, and local agencies. These funds are primarily on a reimbursement basis and have a program year that does not always coincide with the District's fiscal year. Nearly all of these funds cannot carry a fund balance and, other than the food service fund, none of these funds are legally required to have an adopted budget.

Debt Service Fund: This fund is used to account for tax revenues and for the payment of principal, interest, and related costs on long-term debt for which a tax has been dedicated. This is a budgeted fund and a separate bank account is maintained for this fund. Any unused sinking fund balances are transferred to the General Fund after all of the debt obligations have been met.

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. **Measurement Focus, Basis of Accounting**

Government-wide and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. 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. 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. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

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

3. Financial Statement Amounts

a. 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 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 1 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 when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon 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.

b. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50
Building Improvements	20
Vehicles	2-15
Equipment	3-15

d. Deferred Outflows and Inflows of Resources

In addition to assets, the statement of financial 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 one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then. The District has four items that qualify for reporting in this category in the government-wide Statement of Net Position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. Deferred charges have been recognized as a result of differences between the actuarial expectations and the actual economic experience and for the changes in actuarial assumptions related to the District's defined benefit pension plan. These amounts are deferred and amortized over the average of the expected service lives of the pension plan members. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the District's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made.

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time. The District has two items that qualify for reporting in this category in the government-wide Statement of Net Position. Deferred inflows of resources are recognized for the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. Another deferral is recognized for the changes in proportion and difference between the employer's contributions and the proportionate share of contributions related to the District's defined benefit pension plan. This amount is deferred and amortized over the average of the expected service lives of pension plan members. At the fund level, the District has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenue from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

e. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net positions.

g. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

h. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to insure accuracy in building a statewide database for policy development and funding plans.

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

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

Committed Fund Balance - represents amounts that can only be used for a specific purpose because of a formal action by the District's Board of Trustees. Committed amounts cannot be used for any other purpose unless the Board of Trustees removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Trustees. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Trustees or by an official or body to which the Board of Trustees delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

j. Net Position Flow Assumption

Sometimes the District will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted net position and unrestricted net position in the government-wide and fiduciary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

k. Fund Balance Flow Assumptions

Sometimes the District will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the District's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

l. Program Revenues

Amounts reported as program revenue include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources and reported as general revenues rather than as program revenues.

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

4. 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' 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.

At August 31, 2016, the District reported the following:

Net Pension Asset	\$	--
Net Pension Liability	\$	694,425

B. Deposits and Investments

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

1. Cash Deposits:

At August 31, 2016, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,305,875 and the bank balance was \$2,500,874. The District's cash deposits at August 31, 2016, and during the year ended August 31, 2016, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act (the "Act"), to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act (the "Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports, and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers' acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The District's investments at August 31, 2016 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Fair Value</u>
LOGIC Investment Pool	N/A	\$ 9,350,948
TexPool Investment Pool	N/A	130,391
Total Investments		<u>\$ 9,481,339</u>

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not significantly exposed to credit risk.

At August 31, 2016, the District's investments, other than those which are obligations of or guaranteed by the U. S. Government, are rated as to credit quality as follows:

<u>Investment or Investment Type</u>	<u>Administrator</u>	<u>Rating</u>
LOGIC Investment Pool	First Southwest	AAA*
TexPool Investment Pool	Federated Investors, Inc	AAAm*

* Rated by Standard and Poor's Investor Services

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

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

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the Pool and other persons who do not have a business relationship with the Pool and are qualified to advise the Pool; 2) maintain a continuous rating of no lower than 'AAA' or 'AAA-m' or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the Pool's underlying portfolio, unless the Pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission (SEC) as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

LOGIC

The District invests in the Local Government Investment Cooperative (LOGIC), which is a local government investment pool organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. LOGIC's governing body is a five-member board of directors comprised of employees, officers or elected officials of participant government entities or individuals who do not have a business relationship with LOGIC and are qualified to advise it. A maximum of two advisory board members represents the co-administrators of LOGIC. The co-administrators of the day to day administration of LOGIC are First Southwest Company and J. P. Morgan Investment Management, Inc. LOGIC is rated at a 'AAA' or equivalent rating from at least one nationally recognized rating agency and operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. LOGIC seeks to maintain a net asset value of \$1.00 per unit and is designed to be used for investment of funds which may be needed at any time.

TexPool

The District invests in the Texas Local Government Investment Pool ("TexPool"), which is a local government investment pool that was established in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and operates under the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. The State Comptroller of Public Accounts oversees TexPool. Federated Investors, Inc. is the administrator and investment manager of TexPool under a contract with the State Comptroller. In accordance with the Public Funds Investment Act, the State Comptroller has appointed the TexPool Investment Advisory Board (the "Board") to advise with respect to TexPool. The Board is composed equally of participants in TexPool and other persons who do not have a business relationship with TexPool and are qualified to advise in respect to TexPool. The Advisory Board members review the investment policy and management fee structure. TexPool is rated 'AAAm' by Standard & Poor's and operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. All investments are stated at amortized cost, which usually approximates the market value of the securities. The stated objective of TexPool is to maintain a stable average \$1.00 per unit net asset value; however, the \$1.00 net asset value is not guaranteed or insured. The financial statements can be obtained from the Texas Trust Safekeeping Trust Company website at www.ttstc.org.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

C. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 153,935	\$ --	\$ --	\$ 153,935
Construction in progress	--	101,250	--	101,250
Total capital assets not being depreciated	<u>153,935</u>	<u>101,250</u>	<u>--</u>	<u>255,185</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	11,189,493	119,759	20,000	11,289,252
Equipment	836,624	53,231	10,000	879,855
Vehicles	868,630	124,786	59,700	933,716
Total capital assets being depreciated	<u>12,894,747</u>	<u>297,776</u>	<u>89,700</u>	<u>13,102,823</u>
Less accumulated depreciation for:				
Buildings and improvements	(8,054,581)	(213,038)	(8,250)	(8,259,369)
Equipment	(701,406)	(45,693)	(10,000)	(737,099)
Vehicles	(465,380)	(66,404)	(20,895)	(510,889)
Total accumulated depreciation	<u>(9,221,367)</u>	<u>(325,135)</u>	<u>(39,145)</u>	<u>(9,507,357)</u>
Total capital assets being depreciated, net	<u>3,673,380</u>	<u>(27,359)</u>	<u>50,555</u>	<u>3,595,466</u>
Governmental activities capital assets, net	<u>\$ 3,827,315</u>	<u>\$ 73,891</u>	<u>\$ 50,555</u>	<u>\$ 3,850,651</u>

Depreciation was charged to functions as follows:

Instruction	\$ 121,475
Instructional Resources and Media Services	2,983
Curriculum and Staff Development	928
School Leadership	1,194
Guidance, Counseling, & Evaluation Services	715
Health Services	557
Student Transportation	66,209
Food Services	8,342
Extracurricular Activities	67,709
General Administration	4,443
Plant Maintenance and Operations	49,574
Data Processing Services	1,006
	<u>\$ 325,135</u>

D. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at August 31, 2016 consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Special Revenue Funds	\$ 72,934	Short-term loans

All amounts due are scheduled to be repaid within one year.

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

2. Transfers To and From Other Funds

Transfers to and from other funds at August 31, 2016 consisted of the following:

Transfers From	Transfers To	Amount	Reason
General fund	Child Nutrition Fund	\$ <u>35,257</u>	Supplement other funds sources

E. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended August 31, 2016 are as follows:

	Original Issue	Beginning Balance	Net Change	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
Bonds, notes and other payables:					
Tax refunding bonds, 2010	\$ 2,165,000	\$ 1,875,000	\$ (130,000)	\$ 1,745,000	\$ 130,000
School building bonds, 2016	8,860,000	--	8,860,000	8,860,000	220,000
Maintenance tax note, 2007	430,000	240,000	(30,000)	210,000	30,000
Maintenance loan	71,550	43,093	(13,939)	29,153	14,361
Maintenance loan	140,306	140,306	(34,952)	105,354	34,065
	<u>11,666,856</u>	<u>2,298,399</u>	<u>8,651,109</u>	<u>10,949,507</u>	<u>428,426</u>
<u>Other liabilities:</u>					
Bond premium	--	171,337	762,967	934,304	--
Net pension liability	--	369,926	324,499	694,425	--
Total governmental activities	\$ <u>11,666,856</u>	\$ <u>2,839,662</u>	\$ <u>9,738,574</u>	\$ <u>12,578,236</u>	\$ <u>428,426</u>
Long-term liabilities due in more than one year				\$ <u>12,149,810</u>	

Bonded indebtedness of the District reflected in the general long-term debt and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund. These bonds were issued as school tax refunding bonds and school building bonds and the interest rates on the bonds ranged from 0% to 4%. Interest expense was \$64,250 for the year ended August 31, 2016.

Notes payable of the District reflected in the general long-term debt and current requirements for principal and interest expenditures are accounted for in the General Fund. The District approved the maintenance tax note at an interest rate of 4.410% for the acquisition and maintenance of facilities and equipment. Interest expense was \$9,923 for the year ended August 31, 2016.

Loans payable of the District reflected in the general long-term debt and current requirements for principal and interest expenditures are accounted for in the General Fund. The District approved the maintenance loans at interest rates of 3% for the acquisition and maintenance of facilities, vehicles, and equipment. Interest expense was \$3,655 for the year ended August 31, 2016.

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

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2016 are as follows:

<u>Year Ending August 31.</u>	Bonds Payable		
	Principal	Interest	Total
2017	\$ 350,000	\$ 353,152	\$ 703,152
2018	375,000	337,400	712,400
2019	380,000	323,700	703,700
2020	395,000	309,625	704,625
2021	410,000	294,250	704,250
2022-2026	2,330,000	1,204,450	3,534,450
2027-2031	1,945,000	801,725	2,746,725
2032-2036	2,045,000	513,375	2,558,375
2037-2041	2,375,000	182,625	2,557,625
Totals	<u>\$ 10,605,000</u>	<u>\$ 4,320,302</u>	<u>\$ 14,925,302</u>

<u>Year Ending August 31.</u>	Notes Payable		
	Principal	Interest	Total
2017	\$ 30,000	\$ 8,600	\$ 38,600
2018	35,000	7,166	42,166
2019	35,000	5,623	40,623
2020	35,000	4,079	39,079
2021	35,000	2,536	37,536
2022-2026	40,000	882	40,882
Totals	<u>\$ 210,000</u>	<u>\$ 28,886</u>	<u>\$ 238,886</u>

<u>Year Ending August 31.</u>	Loans Payable		
	Principal	Interest	Total
2017	\$ 48,426	\$ 4,102	\$ 52,529
2018	49,903	2,618	52,521
2019	36,178	1,100	37,279
Totals	<u>\$ 134,507</u>	<u>\$ 7,821</u>	<u>\$ 142,329</u>

F. Commitments Under Noncapitalized Leases

The District had no future commitments under operating (noncapitalized) lease agreements for facilities and equipment as of August 31, 2016.

Rental Expenditures in 2016 \$ 18,224

G. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors and omissions; injuries to employees; and natural disasters. During fiscal year 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.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED AUGUST 31, 2016

H. Pension Plan

1. Plan Description

The District participates in a cost-sharing multiple employer defined benefit pension plan that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS' defined benefit pension plan is established and administered in accordance with the Texas Constitution, Article XVI, Sec. 67, and Texas Government Code, Title 8, Subtitle C. The TRS 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.

2. Pension Plan Fiduciary Net Position

Detailed information about the TRS' 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 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.

3. 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% (multiplier) times the average of the 5 highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the 3 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 cost-of-living adjustments (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 (1.) above.

4. 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 through 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.

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

	Contribution Rates	
	2015	2016
Member	6.4%	6.7%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2015 Employer Contributions	\$ 58,171	
District's 2015 Member Contributions	\$ 50,606	
NECE 2015 On-Behalf Contributions to District	\$ 184,271	

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

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational, and general or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees and 100% of the state contribution rate for all other employees.

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

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

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

5. Actuarial Assumptions

The total pension liability in the August 31, 2015 actuarial evaluation 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%
Long-term expected investment rate of return	8%
Inflation	2.5%
Salary increases including inflation	3.5% to 9.5%
Payroll growth rate	2.5%
Benefit changes during the year	None
Ad hoc post-employment benefit changes	None

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

6. Discount Rate

The discount rate used to measure the total pension liability was 8%. There was no change in the discount rate since the previous fiscal 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 expected 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 System's target asset allocation as of August 31, 2015 are summarized on the next page:

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

Teacher Retirement System of Texas			
Asset Allocation and Long-Term Expected Real Rate of Return			
As of August 31, 2015			
	Target Allocation	Long-term Expected Geometric Real Rate of Return	Expected Contribution to Long-term Portfolio 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 Inflat. Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy & Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
Total	100%		8.7%

* The expected contribution to returns incorporates the volatility drag resulting from the conversion between arithmetic and geometric mean returns.

7. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the net pension liability if the discount rate used was 1% point less and 1% point greater than the discount rate that was used (8%) in measuring the 2015 net pension liability.

	1% Decrease in Discount Rate 7%	Discount Rate 8%	1% Increase in Discount Rate 9%
District's proportionate share of the net pension liability	\$ 1,088,032	\$ 694,425	\$ 366,574

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

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

At August 31, 2015, the District reported a liability of \$694,425 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 694,425
State's proportionate share of the net pension liability associated with the District	<u>2,199,153</u>
Total	<u>\$ 2,893,578</u>

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

At August 31, 2015, the employer's proportion of the collective net pension liability was 0.0019645%, which was an increase of 0.0005796% 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

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

Mortality Assumptions

- e. 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.
- f. 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.
- g. 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.

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

Other Demographic Assumptions

- h. 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.
- i. 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 termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
- j. Small adjustments were made to the retirement pattern for members consistent with experience and future expectations.
- k. 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.
- l. 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

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

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

For the year ended August 31, 2016, the District recognized pension expense of \$313,344 and revenue of \$313,344 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 4,758	\$ (26,687)
Changes in actuarial assumptions	19,998	(24,774)
Difference between projected and actual investment earnings	86,222	--
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	132,581	(80)
District contributions paid to TRS subsequent to the measurement date	65,497	--
Total	<u>\$ 309,055</u>	<u>\$ (51,542)</u>

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

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

Year Ended August 31	Pension Expense
2017	\$ 33,185
2018	33,185
2019	33,185
2020	61,451
2021	18,400
Thereafter	12,609
Total	<u>\$ 192,016</u>

I. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

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

b. 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. Funding for free basic coverage is provided by the program based upon public school district payroll. 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. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas contribution rate was 1% for fiscal years 2016, 2015, and 2014 and the active public school employee contributions rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2016, 2015, and 2014. For the years ended August 31, 2016, 2015, and 2014, the State's contributions to TRS-Care were \$1,904, \$1,852, and \$2,480, respectively; the active member contributions were \$21,340, \$20,173, and \$19,665, respectively; and the District's contributions were \$18,057, \$17,070, and \$16,639, respectively; which equaled the required contributions each year.

2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was 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 years ended August 31, 2016, 2015, and 2014, the subsidy payments received by TRS-Care on behalf of the District were \$12,381, \$12,316, and \$8,148, respectively.

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

J. Employee Health Care Coverage

During the year ended August 31, 2016, employees of the District were covered by a health insurance plan (the "Plan"). The District paid premiums of \$225 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third-party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the third-party administrator is renewable September 1, 2016, and terms of coverage and premium costs are included in the contractual provisions.

K. Commitments and Contingencies

1. Contingencies

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the District at August 31, 2016.

L. Shared Services Arrangements

The District participates in a shared services arrangement (SSA) for resource education with other participating independent school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Rockdale Independent School District, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA.

The District participates in an SSA for migrant services under the Title I, Part C grant with other participating independent school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region VI, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA.

The District participates in an SSA for career and technology education services with other participating independent school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Education Service Center, Region VI, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

The District participates in an SSA for a regional program for the deaf with other participating independent school districts. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, Bryan Independent School District, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the SSA.

M. Workers' Compensation

Claims Administrative Services

During the year ended August 31, 2016, employees of the District were covered by a Workers' Compensation Plan (the "Plan"). The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

The contract between the District and the third-party administrator, Claims Administrative Services (CAS), acting on behalf of the self-funded pool, is renewable September 1, 2016, and terms, as well as costs of coverage, are included in the contractual provisions.

In accordance with state statutes, the District was protected against unanticipated catastrophic individual or aggregate loss by reinsurance coverage carried through Midwest Employers Casualty, a commercial insurer licensed or eligible to do business in the state of Texas in accordance with Texas Insurance Code. Reinsurance coverage was in effect for individual claims exceeding \$750,000 and for aggregate claims with a statutory limit of \$3,000,000. According to CAS, the unfunded claim benefit obligation of \$6,075 included \$819 in estimated claims incurred, but not reported.

The claim liability is based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate of claims which have been incurred, but not reported based on historical experience. Changes in the claims liability for workers' compensation benefits for the current and prior fiscal year are summarized below:

	Fiscal Year	
	2016	2015
Claims liability at beginning of year	\$ 7,093	\$ 8,323
Current year claims and estimated changes	(85)	(116)
Claims payments	(933)	(1,114)
Claims liability at year end	<u>\$ 6,075</u>	<u>\$ 7,093</u>

TASB Risk Management Fund

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

The District participates in the Fund's reimbursable aggregate deductible program. As such, the member is responsible for a certain amount of claims liability as outlined on the member's Contribution and Coverage Summary document. After the member's deductible has been met, the Fund is responsible for additional claims liability.

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

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

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

N. Unemployment Compensation

During the year ended August 31, 2016, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

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

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

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Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT G-1

Page 1 of 2

Data Control Codes		1	2	3	Variance with
		Budgeted Amounts			Final Budget
		Original	Final	Actual	Positive (Negative)
REVENUES:					
5700	Local and Intermediate Sources	\$ 2,930,158	\$ 2,930,158	\$ 3,106,519	\$ 176,361
5800	State Program Revenues	2,341,645	2,341,645	2,325,544	(16,101)
5900	Federal Program Revenues	10,000	10,000	8,541	(1,459)
5020	Total Revenues	5,281,803	5,281,803	5,440,604	158,801
EXPENDITURES:					
Current:					
Instruction & Instructional Related Services:					
0011	Instruction	2,824,952	2,602,816	2,583,083	19,733
0012	Instructional Resources and Media Services	33,288	35,788	35,252	536
0013	Curriculum and Staff Development	1,000	1,000	821	179
	Total Instruction & Instr. Related Services	2,859,240	2,639,604	2,619,156	20,448
Instructional and School Leadership:					
0021	Instructional Leadership	89,350	92,950	91,551	1,399
0023	School Leadership	302,188	250,188	232,923	17,265
	Total Instructional & School Leadership	391,538	343,138	324,474	18,664
Support Services - Student (Pupil):					
0031	Guidance, Counseling and Evaluation Services	170,382	167,882	118,515	49,367
0033	Health Services	32,516	34,016	32,585	1,431
0034	Student (Pupil) Transportation	186,176	279,176	241,019	38,157
0036	Cocurricular/Extracurricular Activities	222,500	276,000	275,996	4
	Total Support Services - Student (Pupil)	611,574	757,074	668,115	88,959
Administrative Support Services:					
0041	General Administration	386,483	456,483	401,039	55,444
	Total Administrative Support Services	386,483	456,483	401,039	55,444
Support Services - Nonstudent Based:					
0051	Plant Maintenance and Operations	672,541	783,541	761,090	22,451
0052	Security and Monitoring Services	15,000	15,000	4,082	10,918
0053	Data Processing Services	80,000	111,000	110,320	680
	Total Support Services - Nonstudent Based	767,541	909,541	875,492	34,049
Debt Service:					
0071	Principal on Long-Term Debt	56,497	81,201	78,873	2,328
0072	Interest on Long-Term Debt	--	13,578	13,578	--
	Total Debt Service	56,497	94,779	92,451	2,328
Intergovernmental Charges:					
0093	Payments to Fiscal Agent/Member Dist.-SSA	94,779	56,497	47,889	8,608
0099	Other Intergovernmental Charges	78,151	81,687	81,687	--
	Total Intergovernmental Charges	172,930	138,184	129,576	8,608
6030	Total Expenditures	5,245,803	5,338,803	5,110,303	228,500
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	36,000	(57,000)	330,301	387,301

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT G-1

Page 2 of 2

Data Control Codes		1	2	3	Variance with Final Budget Positive (Negative)
		Budgeted Amounts		Actual	
		Original	Final		
	Other Financing Sources (Uses):				
8911	Transfers Out	(36,000)	(36,000)	(35,257)	743
7080	Total Other Financing Sources and (Uses)	(36,000)	(36,000)	(35,257)	743
1200	Net Change in Fund Balance	--	(93,000)	295,044	388,044
0100	Fund Balance - Beginning	1,362,880	1,362,880	1,362,880	--
3000	Fund Balance - Ending	<u>\$ 1,362,880</u>	<u>\$ 1,269,880</u>	<u>\$ 1,657,924</u>	<u>\$ 388,044</u>

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

SOMERVILLE INDEPENDENT SCHOOL DISTRICT**EXHIBIT G-2**

*SCHEDULE OF THE DISTRICT'S PROPORTIONATE
SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS (TRS)
LAST TEN FISCAL YEARS
For the Year Ended August 31, 2016*

	Measurement Year*	
	2015	2014
District's proportion of the net pension liability (asset)	0.0019645%	0.0013849%
District's proportionate share of the net pension liability (asset)	\$ 694,425	\$ 369,926
State's proportionate share of the net pension liability (asset) associated with the District	2,199,153	1,820,146
Total	<u>\$ 2,893,578</u>	<u>\$ 2,190,072</u>
District's covered employee payroll **	\$ 3,103,562	\$ 3,025,331
District's proportionate share of the net pension liability (asset) as a percentage of its covered employee payroll	22.38%	12.23%
Plan fiduciary net position as a percentage of the total pension liability	78.43%	83.25%

* Only two years' worth of information is currently available.

** As of measurement date

Notes to Required Supplementary Information:*Changes in Assumptions*

See notes to the financial statements (Defined Benefit Pension Plan, Teacher Retirement System disclosure) for changes.

Changes of benefit terms

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

SOMERVILLE INDEPENDENT SCHOOL DISTRICT**EXHIBIT G-3***SCHEDULE OF DISTRICT CONTRIBUTIONS**TEACHER RETIREMENT SYSTEM OF TEXAS (TRS)**LAST TEN FISCAL YEARS**For the Year Ended August 31, 2016*

	Fiscal Year*		
	2016	2015	2014
Contractually required contribution	\$ 65,497	\$ 58,171	\$ 35,110
Contributions in relation to the contractually required contribution	65,497	58,171	35,110
Contribution deficiency (excess)	\$ <u> -- </u>	\$ <u> -- </u>	\$ <u> -- </u>
District's covered employee payroll	\$ 3,283,037	\$ 3,103,562	\$ 3,025,331
Contributions as a percentage of covered employee payroll	2.00%	1.87%	1.16%

* This schedule is presented to illustrate the requirement to show information for 10 years.

However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

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Combining Statements as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT**COMBINING BALANCE SHEET****NONMAJOR GOVERNMENTAL FUNDS**

AUGUST 31, 2016

Data Control Codes		Special Revenue Funds	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds (See Exhibit C-1)
ASSETS:					
1110	Cash and Cash Equivalents	\$ 61,778	\$ 199,037	\$ 163,575	\$ 424,390
1220	Taxes Receivable, Delinquent	--	37,374	--	37,374
1230	Allowance for Uncollectible Taxes	--	(13,927)	--	(13,927)
1240	Due from Other Governments	72,934	--	--	72,934
1000	Total Assets	<u>134,712</u>	<u>222,484</u>	<u>163,575</u>	<u>520,771</u>
LIABILITIES:					
Current Liabilities:					
2140	Interest Payable	\$ --	\$ 5,533	\$ --	\$ 5,533
2160	Accrued Wages Payable	5,098	--	--	5,098
2170	Due to Other Funds	72,934	--	--	72,934
2300	Unearned Revenue	17,976	--	--	17,976
2000	Total Liabilities	<u>96,008</u>	<u>5,533</u>	<u>--</u>	<u>101,541</u>
DEFERRED INFLOWS OF RESOURCES:					
	Unavailable Revenue - Property Taxes	--	23,447	--	23,447
2600	Total Deferred Inflows of Resources	<u>--</u>	<u>23,447</u>	<u>--</u>	<u>23,447</u>
FUND BALANCES:					
Restricted Fund Balances:					
3450	Federal/State Funds Grant Restrictions	16,382	--	--	16,382
3480	Retirement of Long-Term Debt	--	193,504	--	193,504
3490	Other Restrictions of Fund Balance	22,322	--	163,575	185,897
3000	Total Fund Balances	<u>38,704</u>	<u>193,504</u>	<u>163,575</u>	<u>395,783</u>
4000	Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 134,712</u>	<u>\$ 222,484</u>	<u>\$ 163,575</u>	<u>\$ 520,771</u>

SOMERVILLE 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		Special Revenue Funds	Debt Service Fund	Permanent Funds	Total Nonmajor Governmental Funds (See Exhibit C-2)
REVENUES:					
5700	Local and Intermediate Sources	\$ 113,322	\$ 208,985	\$ 12,271	\$ 334,578
5800	State Program Revenues	80,351	10,464	--	90,815
5900	Federal Program Revenues	488,998	--	--	488,998
5020	Total Revenues	<u>682,671</u>	<u>219,449</u>	<u>12,271</u>	<u>914,391</u>
EXPENDITURES:					
Current:					
0011	Instruction	245,986	--	--	245,986
0012	Instructional Resources and Media Services	18,088	--	--	18,088
0013	Curriculum and Staff Development	19,174	--	--	19,174
0021	Instructional Leadership	190	--	--	190
0023	School Leadership	6,302	--	--	6,302
0034	Student Transportation	1,797	--	--	1,797
0035	Food Service	353,550	--	--	353,550
0036	Cocurricular/Extracurricular Activities	65,220	--	7,281	72,501
0041	General Administration	1,896	--	--	1,896
0053	Data Processing Services	18,408	--	--	18,408
0071	Principal on Long-term Debt	--	130,000	--	130,000
0072	Interest on Long-term Debt	--	64,250	--	64,250
0073	Bond Issuance Costs and Fees	--	500	--	500
6030	Total Expenditures	<u>730,611</u>	<u>194,750</u>	<u>7,281</u>	<u>932,642</u>
1100	Excess (Deficiency) of Revenues Over (Under)				
1100	Expenditures	<u>(47,940)</u>	<u>24,699</u>	<u>4,990</u>	<u>(18,251)</u>
Other Financing Sources and (Uses):					
7915	Transfers In	35,257	--	--	35,257
7916	Premium or Discount on Issuance of Bonds	--	3,537	--	3,537
7080	Total Other Financing Sources and (Uses)	<u>35,257</u>	<u>3,537</u>	<u>--</u>	<u>38,794</u>
1200	Net Change in Fund Balances	<u>(12,683)</u>	<u>28,236</u>	<u>4,990</u>	<u>20,543</u>
0100	Fund Balances - Beginning	51,387	165,268	158,585	375,240
3000	Fund Balances - Ending	<u>\$ 38,704</u>	<u>\$ 193,504</u>	<u>\$ 163,575</u>	<u>\$ 395,783</u>

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

AUGUST 31, 2016

Data Control Codes	201 Environmental Education	211 ESEA Title I Improving Basic Programs	212 ESEA Title I, Part C Migrant Children
ASSETS:			
1110 <i>Cash and Cash Equivalents</i>	\$ 1,533	\$ --	\$ --
1240 <i>Due from Other Governments</i>	--	58,601	--
1000 <i>Total Assets</i>	<u>1,533</u>	<u>58,601</u>	<u>--</u>
LIABILITIES:			
Current Liabilities:			
2160 <i>Accrued Wages Payable</i>	\$ --	\$ --	\$ --
2170 <i>Due to Other Funds</i>	--	58,601	--
2300 <i>Unearned Revenue</i>	1,533	--	--
2000 <i>Total Liabilities</i>	<u>1,533</u>	<u>58,601</u>	<u>--</u>
FUND BALANCES:			
Restricted Fund Balances:			
3450 <i>Federal/State Funds Grant Restrictions</i>	--	--	--
3490 <i>Other Restrictions of Fund Balance</i>	--	--	--
3000 <i>Total Fund Balances</i>	<u>--</u>	<u>--</u>	<u>--</u>
4000 <i>Total Liabilities and Fund Balances</i>	<u>\$ 1,533</u>	<u>\$ 58,601</u>	<u>\$ --</u>

240 National School Breakfast/Lunch Program	242 Summer Feeding Program	244 Career and Tech Basic Grant	255 ESEA Title II Training & Recruiting
\$ 21,480	\$ --	\$ --	\$ --
--	--	--	14,333
<u>21,480</u>	<u>--</u>	<u>--</u>	<u>14,333</u>
\$ 5,098	\$ --	\$ --	\$ --
--	--	--	14,333
--	--	--	--
<u>5,098</u>	<u>--</u>	<u>--</u>	<u>14,333</u>
16,382	--	--	--
--	--	--	--
<u>16,382</u>	<u>--</u>	<u>--</u>	<u>--</u>
\$ <u>21,480</u>	\$ <u>--</u>	\$ <u>--</u>	\$ <u>14,333</u>

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SOMERVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

AUGUST 31, 2016

Data Control Codes		410 State Textbook Fund	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds (See Exhibit H-1)
ASSETS:				
1110	Cash and Cash Equivalents	\$ 16,443	\$ 22,322	\$ 61,778
1240	Due from Other Governments	--	--	72,934
1000	Total Assets	<u>16,443</u>	<u>22,322</u>	<u>134,712</u>
LIABILITIES:				
Current Liabilities:				
2160	Accrued Wages Payable	\$ --	\$ --	\$ 5,098
2170	Due to Other Funds	--	--	72,934
2300	Unearned Revenue	16,443	--	17,976
2000	Total Liabilities	<u>16,443</u>	<u>--</u>	<u>96,008</u>
FUND BALANCES:				
Restricted Fund Balances:				
3450	Federal/State Funds Grant Restrictions	--	--	16,382
3490	Other Restrictions of Fund Balance	--	22,322	22,322
3000	Total Fund Balances	<u>--</u>	<u>22,322</u>	<u>38,704</u>
4000	Total Liabilities and Fund Balances	<u>\$ 16,443</u>	<u>\$ 22,322</u>	<u>\$ 134,712</u>

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	201 Environmental Education	211 ESEA Title I Improving Basic Programs	212 ESEA Title I, Part C Migrant Children
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ --	\$ --
5800 <i>State Program Revenues</i>	--	--	--
5900 <i>Federal Program Revenues</i>	4,190	198,411	5,738
5020 <i>Total Revenues</i>	<u>4,190</u>	<u>198,411</u>	<u>5,738</u>
EXPENDITURES:			
Current:			
0011 <i>Instruction</i>	--	178,526	5,738
0012 <i>Instructional Resources and Media Services</i>	--	18,088	--
0013 <i>Curriculum and Staff Development</i>	--	--	--
0021 <i>Instructional Leadership</i>	--	--	--
0023 <i>School Leadership</i>	--	--	--
0034 <i>Student Transportation</i>	--	1,797	--
0035 <i>Food Service</i>	4,190	--	--
0036 <i>Cocurricular/Extracurricular Activities</i>	--	--	--
0041 <i>General Administration</i>	--	--	--
0053 <i>Data Processing Services</i>	--	--	--
6030 <i>Total Expenditures</i>	<u>4,190</u>	<u>198,411</u>	<u>5,738</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	--	--	--
Other Financing Sources and (Uses):			
7915 <i>Transfers In</i>	--	--	--
7080 <i>Total Other Financing Sources and (Uses)</i>	--	--	--
1200 <i>Net Change in Fund Balances</i>	--	--	--
0100 <i>Fund Balances - Beginning</i>	--	--	--
3000 <i>Fund Balances - Ending</i>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

240 National School Breakfast/Lunch Program	242 Summer Feeding Program	244 Career and Tech Basic Grant	255 ESEA Title II Training & Recruiting
\$ 60,515	\$ 49	\$ --	\$ --
10,769	212	--	--
239,445	4,013	4,300	32,901
<u>310,729</u>	<u>4,274</u>	<u>4,300</u>	<u>32,901</u>
--	--	4,300	6,460
--	--	--	--
--	--	--	19,174
--	--	--	190
--	--	--	6,302
--	--	--	--
345,086	4,274	--	--
--	--	--	--
--	--	--	775
--	--	--	--
<u>345,086</u>	<u>4,274</u>	<u>4,300</u>	<u>32,901</u>
(34,357)	--	--	--
35,257	--	--	--
<u>35,257</u>	--	--	--
900	--	--	--
15,482	--	--	--
<u>\$ 16,382</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>

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SOMERVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,

AND CHANGES IN FUND BALANCES

NONMAJOR SPECIAL REVENUE FUNDS

FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	410 State Textbook Fund	461 Campus Activity Funds	Total Nonmajor Special Revenue Funds (See Exhibit H-2)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ --	\$ 52,758	\$ 113,322
5800 <i>State Program Revenues</i>	69,370	--	80,351
5900 <i>Federal Program Revenues</i>	--	--	488,998
5020 <i>Total Revenues</i>	<u>69,370</u>	<u>52,758</u>	<u>682,671</u>
EXPENDITURES:			
Current:			
0011 <i>Instruction</i>	50,962	--	245,986
0012 <i>Instructional Resources and Media Services</i>	--	--	18,088
0013 <i>Curriculum and Staff Development</i>	--	--	19,174
0021 <i>Instructional Leadership</i>	--	--	190
0023 <i>School Leadership</i>	--	--	6,302
0034 <i>Student Transportation</i>	--	--	1,797
0035 <i>Food Service</i>	--	--	353,550
0036 <i>Cocurricular/Extracurricular Activities</i>	--	65,220	65,220
0041 <i>General Administration</i>	--	1,121	1,896
0053 <i>Data Processing Services</i>	18,408	--	18,408
6030 <i>Total Expenditures</i>	<u>69,370</u>	<u>66,341</u>	<u>730,611</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	<u>--</u>	<u>(13,583)</u>	<u>(47,940)</u>
Other Financing Sources and (Uses):			
7915 <i>Transfers In</i>	--	--	35,257
7080 <i>Total Other Financing Sources and (Uses)</i>	<u>--</u>	<u>--</u>	<u>35,257</u>
1200 <i>Net Change in Fund Balances</i>	<u>--</u>	<u>(13,583)</u>	<u>(12,683)</u>
0100 <i>Fund Balances - Beginning</i>	--	35,905	51,387
3000 <i>Fund Balances - Ending</i>	<u>\$ --</u>	<u>\$ 22,322</u>	<u>\$ 38,704</u>

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR PERMANENT FUNDS

AUGUST 31, 2016

Data Control Codes		477 Trust Scholarship Fund	478 Senior Scholarships	806 Junior High Benevolence	Total Nonmajor Permanent Funds (See Exhibit H-1)
ASSETS:					
1110	<i>Cash and Cash Equivalents</i>	\$ 162,905	\$ 260	\$ 410	\$ 163,575
1000	Total Assets	<u>162,905</u>	<u>260</u>	<u>410</u>	<u>163,575</u>
LIABILITIES:					
2000	Total Liabilities	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
FUND BALANCES:					
Restricted Fund Balances:					
3490	<i>Other Restrictions of Fund Balance</i>	\$ 162,905	\$ 260	\$ 410	\$ 163,575
3000	Total Fund Balances	<u>162,905</u>	<u>260</u>	<u>410</u>	<u>163,575</u>
4000	Total Liabilities and Fund Balances	<u>\$ 162,905</u>	<u>\$ 260</u>	<u>\$ 410</u>	<u>\$ 163,575</u>

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR PERMANENT FUNDS
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	477 Trust Scholarship Fund	478 Senior Scholarships	806 Junior High Benevolence	Total Nonmajor Permanent Funds (See Exhibit H-2)
REVENUES:				
5700 <i>Local and Intermediate Sources</i>	\$ 12,271	\$ --	\$ --	\$ 12,271
5020 <i>Total Revenues</i>	<u>12,271</u>	<u>--</u>	<u>--</u>	<u>12,271</u>
EXPENDITURES:				
Current:				
0036 <i>Cocurricular/Extracurricular Activities</i>	7,020	261	--	7,281
6030 <i>Total Expenditures</i>	<u>7,020</u>	<u>261</u>	<u>--</u>	<u>7,281</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>				
1100 <i>Expenditures</i>	5,251	(261)	--	4,990
1200 <i>Net Change in Fund Balances</i>	<u>5,251</u>	<u>(261)</u>	<u>--</u>	<u>4,990</u>
0100 <i>Fund Balances - Beginning</i>	157,654	521	410	158,585
3000 <i>Fund Balances - Ending</i>	<u>\$ 162,905</u>	<u>\$ 260</u>	<u>\$ 410</u>	<u>\$ 163,575</u>

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Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

SOMERVILLE INDEPENDENT SCHOOL DISTRICT**SCHEDULE OF DELINQUENT TAXES RECEIVABLE****FOR THE YEAR ENDED AUGUST 31, 2016**

Year 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	\$	1.04	\$	.1139	\$	184,213,174
2009	\$	1.04	\$	.1039	\$	195,175,807
2010	\$	1.04	\$	.1065	\$	194,255,037
2011	\$	1.04	\$	.1023	\$	209,132,975
2012	\$	1.04	\$	.1005	\$	202,477,298
2013	\$	1.04	\$	.0997	\$	202,162,606
2014	\$	1.04	\$	.0997	\$	204,909,582
2015	\$	1.04	\$	.0944	\$	216,610,950
2016 (School Year Under Audit)	\$	1.04	\$	.0727	\$	280,433,153

1000 Totals

9000 - Portion of Row 1000 for Taxes Paid into Tax Increment Zone Under Chapter 311, Tax Code

10 Beginning Balance 9/1/15	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/16
\$ 171,259	\$ --	\$ 1,779	\$ 179	\$ (58,288)	\$ 111,013
16,278	--	1,755	192	(176)	14,156
16,116	--	1,565	156	(308)	14,086
17,809	--	2,142	219	(624)	14,824
20,506	--	3,317	326	(628)	16,235
27,188	--	4,811	465	(919)	20,993
39,980	--	8,604	825	(364)	30,187
61,886	--	18,754	1,798	(398)	40,935
104,758	--	43,246	3,925	(767)	56,821
--	3,120,268	2,788,694	194,833	--	136,741
<u>\$ 475,781</u>	<u>\$ 3,120,268</u>	<u>\$ 2,874,667</u>	<u>\$ 202,919</u>	<u>\$ (62,472)</u>	<u>\$ 455,990</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-2

NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
REVENUES:			
5700 <i>Local and Intermediate Sources</i>	\$ 50,780	\$ 60,515	\$ 9,735
5800 <i>State Program Revenues</i>	9,500	10,769	1,269
5900 <i>Federal Program Revenues</i>	249,000	239,445	(9,555)
5020 Total Revenues	<u>309,280</u>	<u>310,729</u>	<u>1,449</u>
EXPENDITURES:			
Current:			
Support Services - Student (Pupil):			
0035 <i>Food Services</i>	345,280	345,086	194
Total Support Services - Student (Pupil)	<u>345,280</u>	<u>345,086</u>	<u>194</u>
6030 Total Expenditures	<u>345,280</u>	<u>345,086</u>	<u>194</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>(36,000)</u>	<u>(34,357)</u>	<u>1,643</u>
Other Financing Sources (Uses):			
7915 <i>Transfers In</i>	36,000	35,257	(743)
7080 Total Other Financing Sources and (Uses)	<u>36,000</u>	<u>35,257</u>	<u>(743)</u>
1200 Net Change in Fund Balance	<u>--</u>	<u>900</u>	<u>900</u>
0100 Fund Balance - Beginning	15,482	15,482	--
3000 Fund Balance - Ending	<u>\$ 15,482</u>	<u>\$ 16,382</u>	<u>\$ 900</u>

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

EXHIBIT J-3

DEBT SERVICE FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes		1	2	3 Variance Positive (Negative)
		Budget	Actual	
REVENUES:				
5700	Local and Intermediate Sources	\$ 205,111	\$ 208,985	\$ 3,874
5800	State Program Revenues	--	10,464	10,464
5020	Total Revenues	205,111	219,449	14,338
EXPENDITURES:				
Debt Service:				
0071	Principal on Long-Term Debt	130,000	130,000	--
0072	Interest on Long-Term Debt	64,250	64,250	--
0073	Bond Issuance Costs and Fees	500	500	--
	Total Debt Service	194,750	194,750	--
6030	Total Expenditures	194,750	194,750	--
1100	Excess (Deficiency) of Revenues Over (Under)			
1100	Expenditures	10,361	24,699	14,338
Other Financing Sources (Uses):				
7916	Premium or Discount on Issuance of Bonds	--	3,537	3,537
7080	Total Other Financing Sources and (Uses)	--	3,537	3,537
1200	Net Change in Fund Balance	10,361	28,236	17,875
0100	Fund Balance - Beginning	165,268	165,268	--
3000	Fund Balance - Ending	\$ 175,629	\$ 193,504	\$ 17,875

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Independent Auditors' Report on Internal Control over Financial Reporting and
On Compliance and Other Matters Based on an Audit of Financial Statements
Performed In Accordance With Government Auditing Standards

To the Board of Trustees of
Somerville Independent School District:

Members of the Board of Trustees:

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 Somerville Independent School District, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise Somerville Independent School District's basic financial statements, and have issued our report thereon dated January 10, 2017.

Internal Control Over Financial Reporting

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

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

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

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Somerville Independent School District
Independent Auditors' 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
Page 2 of 2

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

 BELT HARRIS PECHACEK, LLLP

Belt Harris Pechacek, LLLP
Certified Public Accountants
Bellville, Texas
January 10, 2017

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

A. Summary of Auditors' Results

1. Financial Statements

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

One or more material weaknesses identified? Yes X No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes X None Reported

Noncompliance material to financial statements noted? Yes X No

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

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

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<i>NONE NOTED</i>		

SOMERVILLE INDEPENDENT SCHOOL DISTRICT

*SCHEDULE OF REQUIRED RESPONSES TO SELECTED SCHOOL FIRST INDICATORS
AS OF AUGUST 31, 2016*

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	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 governmental agencies?	Yes
SF8	Did the school district <u>not</u> receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	\$ --
SF11	Net Pension Assets (object 1920) at fiscal year-end.	\$ --
SF12	Net Pension Liabilities (object 2540) at fiscal year-end.	\$ 694,425
SF13	Pension Expense (object 6147) at fiscal year-end.	\$ 42,000

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