

BRACKETT INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT FOR THE YEAR ENDED
JUNE 30, 2016

BRACKETT INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016

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CERTIFICATE OF BOARD

Brackett Independent School District
Name of School District

Kinney
County

136901
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 June 30, 2016 at a meeting of the Board of Trustees of such school district on the 12 of September, 2016.

Andra Meil
Signature of Board Secretary

Dan Rous
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)

COLEMAN, HORTON & COMPANY, LLP

Certified Public Accountants

400 E. NOPAL ST.

UVALDE, TEXAS 78801-5305

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Independent Auditor's Report

Brackett Independent School District
Brackettville, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Brackett Independent School District as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Brackett Independent School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Brackett Independent School District as of June 30, 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 on pages 4-6 and 40-42 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 Brackett Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedule of expenditures of federal awards is the responsibility of management and was derived from and relates 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 schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 and J-2. These schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 26, 2016 on our consideration of the Brackett 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 the Brackett Independent School District's internal control over financial reporting and compliance.

Coleman, Horton & Company, LLP

Uvalde, Texas
August 26, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The annual financial report of Brackett Independent School District (the District) is presented in six sections, management's discussion and analysis (this part), basic financial statements, required supplementary information, combining and other schedules, T.E.A. required schedules, and the federal section. This section of the District's annual financial report presents our discussion and analysis of the financial performance during the fiscal year ending June 30, 2016. Please read it in conjunction with the District's financial section, which follows.

Overview of the Basic Financial Statements

The basic financial statements include two kinds of statements that present different views of the District:

- * The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.
- * The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in *more detail* than the government-wide statements.
- * The *governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.

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

Government-wide Statements

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

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

- * Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- * To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's tax base.

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

Fund Financial Statements

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

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

The District has two types 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 government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, then explain the relationship (or differences) between them.

- * *Fiduciary funds*-The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that-because of a trust agreement-can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position and a statement of changes in fiduciary net position. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

Financial Highlights

- * The District's combined net position was \$12,529,513 at June 30, 2016, an increase of \$1,803,060 from the prior year. Included in this years revenue is \$1,193,171 of insurance proceeds from weather damage.
- * During the year, the District's revenues were \$9,821,397 as reflected below:

		<u>Governmental Activities</u>	
		<u>Current</u>	<u>Prior</u>
		<u>Year</u>	<u>Year</u>
a)	Taxes	\$3,468,210	\$2,541,123
b)	State revenue	4,083,691	3,806,196
c)	Federal revenue	677,530	711,490
d)	Investment earnings	37,450	10,103
e)	Charges for services	301,016	317,999
f)	Other revenue	60,329	72,553
g)	Extraordinary item	<u>1,193,171</u>	<u>-</u>
	Total	<u>\$9,821,397</u>	<u>\$7,459,464</u>

- * During the year, the District's expenses were \$8,018,337 as reflected below:

		<u>Governmental Activities</u>	
		<u>Current</u>	<u>Prior</u>
		<u>Year</u>	<u>Year</u>
a)	Instruction and instructional related	\$4,131,932	\$3,931,090
b)	Instructional and school leadership	429,567	491,842
c)	Guidance, social work, health, transportation	471,070	439,489
d)	Food services	383,310	345,372
e)	Extracurricular activities	504,241	430,657
f)	General administration	480,756	461,173
g)	Plant maintenance and security	1,333,088	1,178,797
h)	Data processing services	174,605	164,433
i)	Payments to fiscal agent/member districts - shared service	<u>109,768</u>	<u>276,514</u>
	Total Expenses	<u>\$8,018,337</u>	<u>\$7,719,367</u>

* The general fund reported a fund balance this year of \$7,325,332, an increase of \$2,089,985 from the prior year.

* The food service fund reported a loss of \$47,625 before transfers from the general fund of \$50,000.

* The District's combined net position was \$12,529,513 at June 30, as reflected below:

	<u>Governmental Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
Current and other assets	\$ 7,941,012	\$ 5,826,054
Capital and non-current assets	<u>5,644,116</u>	<u>5,755,648</u>
Total Assets	<u>\$13,585,128</u>	<u>\$11,581,702</u>
 Deferred outflows	 <u>\$ 875,416</u>	 <u>\$ 118,883</u>
 Current liabilities	 \$ 381,134	 \$ 333,994
Long term liabilities	<u>1,331,478</u>	<u>520,659</u>
Total Liabilities	<u>\$ 1,712,612</u>	<u>\$ 854,653</u>
 Deferred inflows	 <u>\$ 218,419</u>	 <u>\$ 119,479</u>
Net position:		
 Invested in capital assets net of related debt	 \$ 5,644,116	 \$ 5,755,648
Restricted	91,858	89,483
Unrestricted	<u>6,793,539</u>	<u>4,881,322</u>
Total Net Position	<u>\$12,529,513</u>	<u>\$10,726,453</u>

* The property tax rate was not changed from the past year. The taxable value increased during the year by \$45,533,600. The tax levy increased by \$473,549.

* State aid increased for the year by \$277,495.

* Federal source revenue decreased for the year by \$33,960.

* The District received \$1,193,171 of insurance proceeds as a result of weather damage to its facilities during the year.

Capital Assets and Debt Administration

Capital Assets

Capital assets for the District as of June 30, 2016 were \$5,644,116. It is the District’s policy to charge off as a current expenditure any purchases less than \$5,000. The total capital assets recorded were land and its improvements, buildings, equipment and vehicles as reflected below:

District’s Capital Assets

	<u>Governmental Activities</u>	
	<u>Current Year</u>	<u>Prior Year</u>
Land	\$ 570,991	\$ 542,896
Buildings and improvements	11,869,229	11,701,630
Vehicles & equipment	<u>1,428,799</u>	<u>1,417,106</u>
Totals at historical cost	13,869,019	13,661,632
Total accumulated depreciation	<u>(8,224,903)</u>	<u>(7,905,984)</u>
Net capital assets	<u>\$ 5,644,116</u>	<u>\$ 5,755,648</u>

Long-term Debt

The District has no long-term debt obligations as of June 30, 2016.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget several times. Even with these adjustments, actual expenditures were \$2,119,814 below final budget amounts. The most significant positive variance resulted from staffing, budget efficiencies, and the expected facility repairs which will now be expended in the 2016-17 year. Additionally, resources available were \$446,705 above the final budgeted amounts.

- * Local revenue sources was \$282,355 more than expected.
- * State funding was more than budgeted by \$116,769.
- * Federal revenue was \$47,581 greater than budgeted.

Contacting the District’s Financial Management

This financial report is designed for customers, investors, and creditors with a general overview of the District’s finances and to demonstrate the District’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District’s Business Services department.

BASIC FINANCIAL STATEMENTS

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

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 1,570,498
1120 Current Investments	4,923,349
1220 Property Taxes Receivable (Delinquent)	180,606
1230 Allowance for Uncollectible Taxes	(18,061)
1240 Due from Other Governments	1,258,937
1410 Prepayments	25,683
Capital Assets:	
1510 Land	570,991
1520 Buildings, Net	4,633,909
1530 Furniture and Equipment, Net	439,216
1000 Total Assets	13,585,128
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS	875,416
1700 Total Deferred Outflows of Resources	875,416
LIABILITIES	
2110 Accounts Payable	96,686
2160 Accrued Wages Payable	284,448
Noncurrent Liabilities	
2540 Net Pension Liability (District's Share)	1,331,478
2000 Total Liabilities	1,712,612
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	218,419
2600 Total Deferred Inflows of Resources	218,419
NET POSITION	
3200 Net Investment in Capital Assets	5,644,116
3820 Restricted for Federal and State Programs	91,858
3900 Unrestricted	6,793,539
3000 Total Net Position	\$ 12,529,513

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

BRACKETT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position <u>Primary Gov.</u> Governmental Activities

Primary Government:

GOVERNMENTAL ACTIVITIES:

11 Instruction	\$ 3,948,357	\$ 202,908	\$ 534,512	\$ (3,210,937)
12 Instructional Resources and Media Services	115,254	-	4,357	(110,897)
13 Curriculum and Staff Development	68,321	-	2,423	(65,898)
21 Instructional Leadership	105,720	-	4,046	(101,674)
23 School Leadership	323,847	-	16,823	(307,024)
31 Guidance, Counseling and Evaluation Services	128,380	-	5,960	(122,420)
33 Health Services	25,413	-	1,144	(24,269)
34 Student (Pupil) Transportation	317,277	-	4,979	(312,298)
35 Food Services	383,310	67,449	225,809	(90,052)
36 Extracurricular Activities	504,241	29,459	6,805	(467,977)
41 General Administration	480,756	-	11,907	(468,849)
51 Facilities Maintenance and Operations	1,295,360	1,200	34,153	(1,260,007)
52 Security and Monitoring Services	37,728	-	21,806	(15,922)
53 Data Processing Services	174,605	-	8,298	(166,307)
93 Payments related to Shared Services Arrangements	109,768	-	-	(109,768)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 8,018,337	\$ 301,016	\$ 883,022	\$ (6,834,299)

Data
Control
Codes

General Revenues:

Taxes:

MT	Property Taxes, Levied for General Purposes	3,468,210
SF	State Aid - Formula Grants	3,763,272
GC	Grants and Contributions not Restricted	93,121
IE	Investment Earnings	37,450
MI	Miscellaneous Local and Intermediate Revenue	82,135
E1	Extraordinary Item - resource	1,193,171
TR	Total General Revenues & Extraordinary Items	8,637,359
CN	Change in Net Position	1,803,060
NB	Net Position - Beginning	10,726,453
NE	Net Position--Ending	\$ 12,529,513

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

BRACKETT INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 1,480,448	\$ 90,050	\$ 1,570,498
1120 Investments - Current	4,923,349	-	4,923,349
1220 Property Taxes - Delinquent	180,606	-	180,606
1230 Allowance for Uncollectible Taxes (Credit)	(18,061)	-	(18,061)
1240 Receivables from Other Governments	1,225,733	33,204	1,258,937
1410 Prepayments	25,683	-	25,683
1000 Total Assets	<u>\$ 7,817,758</u>	<u>\$ 123,254</u>	<u>\$ 7,941,012</u>
LIABILITIES			
2110 Accounts Payable	\$ 96,290	\$ 396	\$ 96,686
2160 Accrued Wages Payable	253,448	31,000	284,448
2000 Total Liabilities	<u>349,738</u>	<u>31,396</u>	<u>381,134</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	142,688	-	142,688
2600 Total Deferred Inflows of Resources	<u>142,688</u>	<u>-</u>	<u>142,688</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	91,858	91,858
Committed Fund Balance:			
3510 Construction	1,137,000	-	1,137,000
3520 Claims and Judgements	100,000	-	100,000
3530 Capital Expenditures for Equipment	284,550	-	284,550
3545 Other Committed Fund Balance	2,200,000	-	2,200,000
3600 Unassigned Fund Balance	3,603,782	-	3,603,782
3000 Total Fund Balances	<u>7,325,332</u>	<u>91,858</u>	<u>7,417,190</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 7,817,758</u>	<u>\$ 123,254</u>	<u>\$ 7,941,012</u>

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

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

Total Fund Balances - Governmental Funds	\$	7,417,190
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$13,661,632 and the accumulated depreciation was \$(7,905,984). The net effect of including the beginning balances for capital assets (net of depreciation) in the governmental activities is to increase net position.		5,755,648
2 Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The effect of including the 2016 capital outlays is to increase net position.		245,477
3 The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(357,009)
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of (1,331,478), a deferred resource inflow related to TRS in the amount of (218,419), and a deferred resource outflow related to TRS in the amount of 875,416. The net effect of including the GASB 68 recognition is to decrease net position.		(674,481)
5 Various other reclassifications and recognitions are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable tax revenue of \$142,688 as revenue. The effect of these reclassifications and recognitions is to increase net position.		142,688
19 Net Position of Governmental Activities	\$	12,529,513

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

BRACKETT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 3,824,098	\$ 89,255	\$ 3,913,353
5800 State Program Revenues	4,016,779	66,912	4,083,691
5900 Federal Program Revenues	112,581	543,143	655,724
5020 Total Revenues	<u>7,953,458</u>	<u>699,310</u>	<u>8,652,768</u>
EXPENDITURES:			
Current:			
0011 Instruction	3,356,953	371,396	3,728,349
0012 Instructional Resources and Media Services	112,818	-	112,818
0013 Curriculum and Instructional Staff Development	66,063	-	66,063
0021 Instructional Leadership	91,818	-	91,818
0023 School Leadership	315,780	-	315,780
0031 Guidance, Counseling and Evaluation Services	124,564	-	124,564
0033 Health Services	24,206	-	24,206
0034 Student (Pupil) Transportation	292,368	-	292,368
0035 Food Services	-	340,883	340,883
0036 Extracurricular Activities	421,625	-	421,625
0041 General Administration	473,407	-	473,407
0051 Facilities Maintenance and Operations	1,234,198	12,850	1,247,048
0052 Security and Monitoring Services	15,922	21,806	37,728
0053 Data Processing Services	171,460	-	171,460
Capital Outlay:			
0081 Facilities Acquisition and Construction	195,694	-	195,694
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	109,768	-	109,768
6030 Total Expenditures	<u>7,006,644</u>	<u>746,935</u>	<u>7,753,579</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>946,814</u>	<u>(47,625)</u>	<u>899,189</u>
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	-	50,000	50,000
8911 Transfers Out (Use)	(50,000)	-	(50,000)
7080 Total Other Financing Sources (Uses)	<u>(50,000)</u>	<u>50,000</u>	<u>-</u>
EXTRAORDINARY ITEMS:			
7919 Extraordinary Item - Resource	1,193,171	-	1,193,171
1200 Net Change in Fund Balances	2,089,985	2,375	2,092,360
0100 Fund Balance - July 1 (Beginning)	<u>5,235,347</u>	<u>89,483</u>	<u>5,324,830</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ 7,325,332</u>	<u>\$ 91,858</u>	<u>\$ 7,417,190</u>

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

BRACKETT INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2016

Total Net Change in Fund Balances - Governmental Funds	\$	2,092,360
Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The effect of removing the 2016 capital outlays is to increase net position.		245,477
The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(357,009)
The reporting of GASB 68 for the current year resulted in an increase in the net pension liability of \$(810,834), an increase in deferred resource inflows of \$(98,925), and an increase in deferred resource outflows of \$756,533. The impact of these items is to decrease net position.		(153,226)
Various other reclassifications and recognitions are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing the change in unavailable tax revenue of \$(24,542). The net effect of these reclassifications and recognitions is to decrease net position.		(24,542)
 Change in Net Position of Governmental Activities	\$	1,803,060

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

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

	Investment Trust Fund	Agency Fund
ASSETS		
Cash and Cash Equivalents	\$ 21,003	\$ 112,839
Total Assets	<u>21,003</u>	<u>\$ 112,839</u>
LIABILITIES		
Accounts Payable	10,000	\$ -
Due to Student Groups	-	112,839
Total Liabilities	<u>10,000</u>	<u>\$ 112,839</u>
NET POSITION		
Restricted for Scholarships	<u>11,003</u>	
Total Net Position	<u>\$ 11,003</u>	

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

BRACKETT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY FUND NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

	Investment Trust Fund
ADDITIONS:	
Local and Intermediate Sources	\$ 2,814
Total Additions	<u>2,814</u>
DEDUCTIONS:	
Other Operating Costs	<u>4,500</u>
Total Deductions	<u>4,500</u>
Change in Net Position	(1,686)
Total Net Position - July 1 (Beginning)	<u>12,689</u>
Total Net Position - June 30 (Ending)	<u><u>\$ 11,003</u></u>

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

BRACKETT INDEPENDENT SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Brackett Independent School District (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *Statement of Auditing Standards No. 69* of the American Institute of Certified Public Accountants; and it complies with the requirements of the appropriate version of Texas Education Agency’s *Financial Accountability System Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

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

As of June 30, 2016, Brackett Independent School District retrospectively/prospectively applied Government Accounting Standards Board (“GASB”) Statement No. 72, *Fair Value Measurement and Application*. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

A. REPORTING ENTITY

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the Brackett Independent School District nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants, and other intergovernmental revenues.

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

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

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

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

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

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

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due. The District considers all revenues available if they are collectible within 60 days after year end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible to accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

The Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The fund equity is segregated into net investment in capital assets, restricted net position, and unrestricted net position.

D. FUND ACCOUNTING

The District reports the following major governmental funds:

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

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

Governmental Funds:

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

Fiduciary Funds:

2. **Investment Trust Fund** - This fund is one in which the District holds assets in trust for other entities participating in an investment program managed by the District. The District's Investment Trust Fund is the scholarship fund.
3. **Agency Funds** - The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the Student Activity Fund.

E. FUND BALANCE POLICY

Brackett Independent School District reports fund balance for governmental funds in classifications based primarily on the extent to which the district is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The **nonspendable** classification represents assets that will be consumed or "must be maintained in tact" and therefore will never convert to cash, such as inventories of supplies and endowments. Provisions of laws, contracts, and grants specify how fund resources can be used in the **restricted** classification. The nature of these two classifications precludes a need for a policy from the Board of Trustees. However, the Board has adopted fund balance policies for the three unrestricted classifications – committed, assigned, and unassigned.

From time to time, the Board of Trustees may commit fund balances by a majority vote in a scheduled meeting. The Board's commitment may be modified or rescinded by a majority vote in a scheduled meeting. Board commitments cannot exceed the amount of fund balance that is greater than the sum of nonspendable and restricted fund balances since that practice would commit funds that the district does not have. Commitments may be for facility expansion or renovation, program modifications, wage and salary adjustments, financial cushions and other purposes determined by the Board.

The Board of Trustees may delegate authority to specified persons or groups to make assignments of certain fund balances by a majority vote in a scheduled meeting. The Board may modify or rescind its delegation of authority by the same action. The authority to make assignments shall be in effect until modified or rescinded by the Board by majority vote in a scheduled meeting.

When the District incurs expenditures that can be made from either restricted or unrestricted balances, the expenditures should be charged to unrestricted balances. When the District incurs expenditures that can be made from either committed, assigned, or unassigned balances, the expenditures are charged to unassigned, assigned, then committed.

By a majority vote in a scheduled meeting the Board of Trustees may commit fund balances and it may modify or rescind commitments. The Board may also delegate authority to persons or parties to assign fund balances in specific circumstances or funds.

F. OTHER ACCOUNTING POLICIES

1. The District records purchases of supplies as expenditures.
2. The District records its investments in Tex Pool and Lone Star Investments at cost, which approximates fair value.
3. The District provides risk management obligations by carrying appropriate insurance. Property and general liability insurance is obtained from the Texas Association of School Boards Risk Management Fund. Risk of loss is not retained by the District.
4. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
5. The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide data base for policy development and funding plans.
6. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net position.
7. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the government.
8. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Assets</u>	<u>Years</u>
Buildings	40
Improvements	10
Vehicles	7
Equipment	5

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an “appropriated budget” for the General Fund and Food Service Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the Food Service Fund budget report is Exhibit J-2.

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

1. Prior to June 20 the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days’ public notice of the meeting must be given.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

<u>June 30, 2016</u>	
<u>Fund Balance</u>	
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ 91,858
Nonappropriated Budget Funds	_____ -
All Special Revenue Funds	<u>\$ 91,858</u>

III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

A. DEPOSITS AND INVESTMENTS

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the District complies with this law, it has no custodial credit risk for deposits.

As of June 30, 2016 the District had cash on deposit of \$1,454,340 in excess of depository insurance, but collateralized by securities held by an agent not in the District's name.

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

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

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. Brackett Independent School District is in substantial compliance with the requirements of the Act and with local policies.

As of June 30, 2016, Brackett Independent School District had the following investments.

<u>Investment Type</u>	<u>Investment Maturities (in years)</u>					<u>Credit Rating</u>
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More Than 10</u>	
Lone Star Pool Investment	\$1,669,567	\$1,669,567	\$ -	\$ -	\$ -	AAAm
Certificate of Deposit	<u>3,253,781</u>	<u>-</u>	<u>3,253,781</u>	<u>-</u>	<u>-</u>	N/A
	<u>\$4,923,348</u>	<u>\$1,669,567</u>	<u>\$3,253,781</u>	<u>\$ -</u>	<u>\$ -</u>	

Lone Star Investment Pool (the Pool): The Pool's liquidity fund operates in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940, which allows the fund to use amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the District's position in the Pool is the same as the value of the Pool's shares and does not include any unrealized gains and losses.

The Pool is governed by an eleven member board of trustees (Board) made up of active participants in the Pool. The Board has the responsibility of adopting and monitoring compliance with the investment policy, appointing investment officers, overseeing the selection of an investment advisor, custodian, investment consultant, administrator, and other service providers. The Board is also responsible for monitoring performance of the Pool. Financial information for the Pool can be obtained by writing to Post Office Box 400, Austin, Texas, 78767-0400 or by calling 1-800-758-3927.

Texas Local Government Investment Pool (Texpool); Texpool operates in a manner consistent with the SEC Rule 2a7 of the Investment Company Act of 1940. Texpool uses amortized cost rather than market value to report net assets to compute share prices.

Accordingly, the fair value of the position in the pool is the same as the value of the shares in each pool.

The investment pools used by the District are organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. The investment pools are public funds investment pools created to provide a safe environment for the placement of local government funds in authorized short-term investment.

The District's investment in investment pools, which are exempt from regulation by the Securities and Exchange Commission, have as one of their objectives the maintenance of stable net asset value of \$1. The book value of the position in the pools is the same as the number of shares in each pool; the market value of a share should approximately equal the book value of a share.

Additional policies and contractual provisions governing deposits and investments for Brackett Independent School District are specified below:

Credit Risk To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments to state sponsored investment pools covered by the District's credit risk policy.

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

Concentration of Credit Risk To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to only approved investment instruments that ensure preservation of capital.

Interest Rate Risk To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires the use of final and weighted average maturity limits and diversification.

Foreign Currency Risk for Investments The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment by not investing in foreign currency.

Fair Value Measurements

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

The net increase in the fair value of investments during the year was \$18,636. This amount takes into account all changes in fair value (including purchases and sales) that occurred during the year.

Fair value at June 30, 2016	\$4,923,349
Add: Proceeds of investments sold in 2015-2016	1,342,123
Less: Cost of investments purchased in 2015-2016	(3,235,145)
Less: Fair value at June 30, 2015	<u>(3,011,691)</u>
Change in fair value of investments	<u>\$ 18,636</u>

B. PROPERTY TAXES

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

C. DELINQUENT TAXES RECEIVABLE

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

D. INTERFUND TRANSFERS

The general fund transferred \$50,000 to the food service fund in support of operations.

Transfers to Nonmajor Governmental Funds:

General Fund	<u>\$ 50,000</u>
Total General Fund	<u>\$ 50,000</u>

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at June 30, 2016, were as follows:

	<u>Property Taxes</u>	<u>Due From Other Governments</u>	<u>Due From Other Funds</u>	<u>Other</u>	<u>Total Receivables</u>
Governmental Activities:					
General Fund	\$ 180,606	\$1,225,733	\$ -	\$ -	\$1,406,339
Nonmajor Governmental Funds	-	33,204	-	-	33,204
Total Governmental Activities	<u>\$ 180,606</u>	<u>\$1,258,937</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,439,543</u>
Amount not scheduled for collection during the subsequent year	<u>\$ 18,061</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 18,061</u>

Payables at June 30, 2016, were as follows:

	<u>Accounts Payable</u>	<u>Salaries and Benefits</u>	<u>Due to Other Governments</u>	<u>Due to Other Funds</u>	<u>Other</u>	<u>Total Payables</u>
Governmental Activities:						
General Fund	\$ 96,290	\$ 253,448	\$ -	\$ -	\$ -	\$ 349,738
Nonmajor Governmental Funds	396	31,000	-	-	-	31,396
Total Governmental Activities	<u>\$ 96,686</u>	<u>\$ 284,448</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 381,134</u>

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the year ended June 30, 2016 was as follows:

	Primary Government			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Land	\$ 542,896	\$ 28,095	\$ -	\$ 570,991
Buildings	11,701,630	167,599	-	11,869,229
Equipment	<u>1,417,106</u>	<u>49,783</u>	<u>38,090</u>	<u>1,428,799</u>
Total at historical cost	<u>13,661,632</u>	<u>245,477</u>	<u>38,090</u>	<u>13,869,019</u>
Less accumulated depreciation				
Buildings	(6,977,603)	(257,717)	-	(7,235,320)
Equipment	<u>(928,381)</u>	<u>(99,292)</u>	<u>(38,090)</u>	<u>(989,583)</u>
Total accumulated depreciation	<u>(7,905,984)</u>	<u>(357,009)</u>	<u>(38,090)</u>	<u>(8,224,903)</u>
Governmental activities capital assets, net	<u>\$ 5,755,648</u>	<u>\$ (111,532)</u>	<u>\$ -</u>	<u>\$ 5,644,116</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 119,312
Instructional Leadership	11,246
Guidance, Counseling & Evaluation Services	357
Health Services	893
Student (Pupil) Transportation	73,008
Food Services	33,630
Extracurricular Activities	78,435
Plant Maintenance and Operations	<u>40,128</u>
Total depreciation expense	<u>\$ 357,009</u>

G. COMMITMENTS UNDER OPERATING LEASES

Commitments under operating (noncapital) lease agreements for copiers provide for minimum future rental payments as of June 30, 2016, as follows:

2016	\$ 25,761
2017	25,761
2018	20,253
2019	17,077
2020	-

Rental expenditures for 2016 were \$32,091.

H. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

The State of Texas has created a minimum personal leave program consisting of five days per year leave with no limit on accumulation and transferability among districts for every teacher regularly employed in Texas public schools.

Each district’s local Board of Education is required to establish a leave plan. Local school districts may provide additional leave beyond the state minimum. Brackett Independent School District provides an additional five days leave above the state granted five days per year. Personal leave is not vested, therefore, upon resignation, termination or nonrenewal of contract, accumulated personal leave is not paid.

I. DEFINED BENEFIT PENSION PLAN

Plan Description. The Brackett Independent School District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). TRS’s 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 pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension’s Board of Trustees does not have the authority to establish or amend benefit terms.

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

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

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

Net Position as percentage of Total Pension Liability 78.43%

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

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

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

Contribution Rates

	2015	2016
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

Brackett ISD 2015 Employer Contributions	\$ 111,535
Brackett ISD 2015 Member Contributions	279,068
Brackett ISD 2015 NECE On-Behalf Contributions	231,032

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

As the non-employer contributing entity for public education, the State of Texas contributes to the retirement system an amount equal to the current employer contribution rate times the aggregate annual compensation of all participating members of the pension trust fund during that fiscal year reduced by the amounts described below which are paid by the employers. Employers including public schools are required to pay the employer contribution rate 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 actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2010 and adopted on April 8, 2011. With the exception of the post-retirement local funds.

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

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

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

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Discount Rate	8.0%
Long-term expected Investment Rate of Return*	8.0%
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

* *Includes inflation of 2.5%*

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

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

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

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

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

	<u>1% Decrease in Discount Rate (7%)</u>	<u>Discount Rate (8%)</u>	<u>1% Increase in Discount Rate (9%)</u>
Brackett ISD's proportionate share of the net pension liability:	<u>\$2,086,176</u>	<u>\$1,331,478</u>	<u>\$ 702,862</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2015, the Brackett Independent School District reported a liability of \$1,331,478 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the Brackett Independent School District. The amount recognized by the Brackett Independent School District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the Brackett Independent School District were as follows:

District's proportionate share of the collective net pension liability	\$1,331,478
State's proportionate share that is associated with the District	<u>2,757,224</u>
Total	<u>\$4,088,702</u>

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

At August 31, 2015, the employer's proportion of the collective net pension liability was .000037667% which was an increase of .000018175% 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

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

Mortality Assumptions

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

Other Demographic Assumptions

8. Previously, it was assumed 10% of all members who had contributed in the past 5 years to be an active member. This was an implicit rehire assumption because teachers have historically had a high incidence of terminating employment for a time and then returning to the workforce at a later date. This methodology was modified to add a more explicit valuation of the rehire incidence in the termination liabilities, and therefore these 10% are no longer being counted as active members.
9. There were adjustments to the termination patterns for members consistent with experience and future expectations. The termination patterns were adjusted to reflect the rehire assumption. The timing of the termination decrement was also changed from the middle of the year to the beginning to match the actual pattern in the data.
10. Small adjustments were made to the retirement patterns for members consistent with experience and future expectations.
11. Small adjustments to the disability patterns were made for members consistent with experience and future expectations. Two separate patterns were created based on whether the member has 10 years of service or more.
12. For members that become disabled in the future, it is assumed 20% of them will choose a 100% joint and survivor annuity option.

Actuarial Methods and Policies

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

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

For the year ended August 31, 2015, the Brackett Independent School District recognized pension expense of \$392,860 and revenue of \$231,032 for support provided by the State.

At June 30, 2016, the Brackett Independent School District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ 6,697	\$ 51,170
Changes in actuarial assumptions	28,146	47,501
Differences between projected and actual investment earnings	327,913	119,351
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	415,325	397
Contributions paid to TRS subsequent to the measurement date	<u>97,335</u>	<u>-</u>
Total	<u>\$ 875,416</u>	<u>\$ 218,419</u>

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

<u>Year Ended August 31</u>	<u>Pension Expense Amount</u>
2017	\$ 102,823
2018	102,823
2019	102,823
2020	142,606
2021	60,210
Thereafter	48,392

J. MEDICARE PART D - ON BEHALF PAYMENTS

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 drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Payments made on behalf to Brackett Independent School District for fiscal years 2014, 2015, and 2016 were \$10,708, \$10,666, and \$17,314, respectively.

K. SCHOOL DISTRICT RETIREE HEALTH PLAN

Plan Description. - The Brackett Independent School District contributes to the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost-sharing multiple-employer defined benefit postemployment health care plan administered by the Teacher Retirement System of Texas. TRS-Care 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 Teacher Retirement System of Texas 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 calling the TRS Communications Department at 1-800-223-8778, or by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701.

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. Contribution rates and amounts are shown in the table below for fiscal years 2016-2013.

Contribution Rates						
<u>Year</u>	<u>Active Member</u>		<u>State</u>		<u>School District</u>	
	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
2016	.65%	\$ 27,927	1.0%	\$ 42,965	.55%	\$ 23,328
2015	.65%	\$ 26,896	1.0%	\$ 41,382	.55%	\$ 22,760
2013	.65%	\$ 22,742	1.0%	\$ 34,988	.55%	\$ 19,243

L. LITIGATION

The District’s attorney indicates there is no litigation in progress or pending as of year end.

M. COMMITMENTS AND CONTINGENCIES

During the year the District has received monies from various State and Federal sources. These monies are designated for a specific purpose and the expenditures for the funds are based on actual payments and accruals. The possibility exists, based on a separate audit by any regulatory agency, that costs charged to a specific grant may be disallowed and such disallowed cost would become an obligation of the General Fund. Disallowed costs, if any, are unknown.

As of June 30, 2016, the District had construction contracts in place of \$1,129,095, which will be provided for in the 2016-17 year.

N. UNAVAILABLE REVENUE

Unavailable revenue at year end consisted of the following:

	<u>General Fund</u>	<u>Other Funds</u>	<u>Total</u>
Property taxes	\$ 142,688	\$ -	\$ 142,688
Total Unavailable Revenue	\$ 142,688	\$ -	\$ 142,688

O. DUE FROM STATE AGENCIES

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of June 30, 2016, are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from State Agencies.

<u>Fund</u>	<u>State Entitlements</u>	<u>Federal Grants</u>	<u>Other</u>	<u>Total</u>
General	\$1,206,872	\$ -	\$ 18,861	\$1,225,733
Special Revenue	<u>5,167</u>	<u>28,037</u>	<u>-</u>	<u>33,204</u>
Total	<u>\$1,212,039</u>	<u>\$ 28,037</u>	<u>\$ 18,861</u>	<u>\$1,258,937</u>

P. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total</u>
Property Taxes	\$3,492,752	\$ -	\$3,492,752
Penalties, Interest and Other Tax-related Income	32,149	-	32,149
Investment Income	37,450	-	37,450
Food Sales	-	67,449	67,449
Co-curricular	29,459	-	29,459
Other	<u>232,288</u>	<u>-</u>	<u>232,288</u>
Total	<u>\$3,824,098</u>	<u>\$ 67,449</u>	<u>\$3,891,547</u>

Q. EXTRAORDINARY ITEM

During the year the District received insurance proceeds in the amount of \$1,193,171 from their insurance provider to cover hail damage sustained to the District's property. Since the hail damage is considered a natural event that is both unusual in nature and infrequent in occurrence and thus an extraordinary item for financial statement reporting purposes.

There is no impairment gain or loss to be reported per GASB No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* because the impairment is considered insignificant and temporary in nature.

REQUIRED SUPPLEMENTARY INFORMATION

BRACKETT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 2,988,343	\$ 3,541,743	\$ 3,824,098	\$ 282,355
5800	State Program Revenues	3,900,010	3,900,010	4,016,779	116,769
5900	Federal Program Revenues	73,400	65,000	112,581	47,581
5020	Total Revenues	6,961,753	7,506,753	7,953,458	446,705
EXPENDITURES:					
Current:					
0011	Instruction	3,439,120	3,533,120	3,356,953	176,167
0012	Instructional Resources and Media Services	130,695	130,695	112,818	17,877
0013	Curriculum and Instructional Staff Development	61,722	77,722	66,063	11,659
0021	Instructional Leadership	95,775	97,775	91,818	5,957
0023	School Leadership	338,154	338,154	315,780	22,374
0031	Guidance, Counseling and Evaluation Services	150,051	150,051	124,564	25,487
0033	Health Services	45,297	46,297	24,206	22,091
0034	Student (Pupil) Transportation	333,188	406,688	292,368	114,320
0036	Extracurricular Activities	477,324	492,824	421,625	71,199
0041	General Administration	509,895	515,895	473,407	42,488
0051	Facilities Maintenance and Operations	1,277,060	2,661,265	1,234,198	1,427,067
0052	Security and Monitoring Services	38,900	38,900	15,922	22,978
0053	Data Processing Services	182,072	182,072	171,460	10,612
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	345,000	195,694	149,306
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	110,000	110,000	109,768	232
6030	Total Expenditures	7,189,253	9,126,458	7,006,644	2,119,814
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(227,500)	(1,619,705)	946,814	2,566,519
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out (Use)	(50,000)	(50,000)	(50,000)	-
EXTRAORDINARY ITEMS:					
7919	Extraordinary Item - Resource	-	1,192,205	1,193,171	966
1200	Net Change in Fund Balances	(277,500)	(477,500)	2,089,985	2,567,485
0100	Fund Balance - July 1 (Beginning)	5,235,347	5,235,347	5,235,347	-
3000	Fund Balance - June 30 (Ending)	\$ 4,957,847	\$ 4,757,847	\$ 7,325,332	\$ 2,567,485

BRACKETT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED JUNE 30, 2016

EXHIBIT G-2

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.000037667%	0.000019492%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 1,331,478	520,659
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	2,757,224	2,498,924
Total	<u>\$ 4,088,702</u>	<u>\$ 3,019,583</u>
District's Covered-Employee Payroll	\$ 4,137,799	4,134,877
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	32.18%	12.59%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.43%	83.25%

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

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

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

EXHIBIT G-3

	2016	2015
Contractually Required Contribution	\$ 111,535	\$ 49,417
Contribution in Relation to the Contractually Required Contribution	(111,535)	(49,417)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
District's Covered-Employee Payroll	\$ 4,296,391	\$ 4,137,799
Contributions as a Percentage of Covered-Employee Payroll	2.60%	1.19%

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

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

BRACKETT INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2016

Changes of benefit terms.

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

Changes of assumptions.

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

Economic Assumptions

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

Mortality Assumptions

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

Other Demographic Assumptions

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

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

Actuarial Methods and Policies

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

COMBINING AND OTHER STATEMENTS

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

Data Control Codes	205 Head Start	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	224 IDEA - Part B Formula
ASSETS				
1110 Cash and Cash Equivalents	\$ (2,838)	\$ 12,498	\$ (9,331)	\$ 86
1240 Receivables from Other Governments	6,074	-	11,344	-
1000 Total Assets	<u>\$ 3,236</u>	<u>\$ 12,498</u>	<u>\$ 2,013</u>	<u>\$ 86</u>
LIABILITIES				
2110 Accounts Payable	\$ -	\$ -	\$ -	\$ -
2160 Accrued Wages Payable	3,236	12,498	2,013	86
2000 Total Liabilities	<u>3,236</u>	<u>12,498</u>	<u>2,013</u>	<u>86</u>
FUND BALANCES				
Restricted Fund Balance:				
3450 Federal or State Funds Grant Restriction	-	-	-	-
3000 Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
4000 Total Liabilities and Fund Balances	<u>\$ 3,236</u>	<u>\$ 12,498</u>	<u>\$ 2,013</u>	<u>\$ 86</u>

240 National Breakfast and Lunch Program	242 Summer Feeding Program	255 ESEA II,A Training and Recruiting	289 Rural School Achievement	410 State Textbook Fund	429 Truancy Project	Total Nonmajor Governmental Funds
\$ 101,174	\$ -	\$ 4,247	\$ (10,619)	\$ -	\$ (5,167)	\$ 90,050
-	-	-	10,619	-	5,167	33,204
<u>\$ 101,174</u>	<u>\$ -</u>	<u>\$ 4,247</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 123,254</u>
\$ 396	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 396
8,920	-	4,247	-	-	-	31,000
<u>9,316</u>	<u>-</u>	<u>4,247</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,396</u>
91,858	-	-	-	-	-	91,858
<u>91,858</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>91,858</u>
<u>\$ 101,174</u>	<u>\$ -</u>	<u>\$ 4,247</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 123,254</u>

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

Data Control Codes	205 Head Start	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	224 IDEA - Part B Formula
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	<u>39,356</u>	<u>176,095</u>	<u>25,895</u>	<u>5,348</u>
5020 Total Revenues	<u>39,356</u>	<u>176,095</u>	<u>25,895</u>	<u>5,348</u>
EXPENDITURES:				
Current:				
0011 Instruction	39,356	176,095	25,895	5,348
0035 Food Services	-	-	-	-
0051 Facilities Maintenance and Operations	-	-	-	-
0052 Security and Monitoring Services	-	-	-	-
6030 Total Expenditures	<u>39,356</u>	<u>176,095</u>	<u>25,895</u>	<u>5,348</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	-	-	-
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - July 1 (Beginning)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000 Fund Balance - June 30 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

240 National Breakfast and Lunch Program	242 Summer Feeding Program	255 ESEA II,A Training and Recruiting	289 Rural School Achievement	410 State Textbook Fund	429 Truancy Project	Total Nonmajor Governmental Funds
\$ 67,449	\$ -	\$ -	\$ -	\$ -	\$ 21,806	\$ 89,255
1,756	-	-	-	65,156	-	66,912
235,469	1,434	42,429	17,117	-	-	543,143
<u>304,674</u>	<u>1,434</u>	<u>42,429</u>	<u>17,117</u>	<u>65,156</u>	<u>21,806</u>	<u>699,310</u>
-	-	42,429	17,117	65,156	-	371,396
339,449	1,434	-	-	-	-	340,883
12,850	-	-	-	-	-	12,850
-	-	-	-	-	21,806	21,806
<u>352,299</u>	<u>1,434</u>	<u>42,429</u>	<u>17,117</u>	<u>65,156</u>	<u>21,806</u>	<u>746,935</u>
(47,625)	-	-	-	-	-	(47,625)
<u>50,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,000</u>
2,375	-	-	-	-	-	2,375
89,483	-	-	-	-	-	89,483
<u>\$ 91,858</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,858</u>

BRACKETT INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUND
FOR THE YEAR ENDED JUNE 30, 2016

	BALANCE JULY 1 2015	ADDITIONS	DEDUCTIONS	BALANCE JUNE 30 2016
STUDENT ACTIVITY ACCOUNT				
Assets:				
Cash and Temporary Investments	\$ 108,148	\$ 114,457	\$ 109,766	\$ 112,839
Liabilities:				
Due to Student Groups	\$ 108,148	\$ 114,457	\$ 109,766	\$ 112,839
TOTAL AGENCY FUNDS				
Assets:				
Cash and Temporary Investments	\$ 108,148	\$ 114,457	\$ 109,766	\$ 112,839
Liabilities:				
Due to Student Groups	\$ 108,148	\$ 114,457	\$ 109,766	\$ 112,839

T.E.A. REQUIRED SCHEDULES

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

Last 10 Years	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2007 and prior years	Various	Various	\$ Various
2008	0.970000	0.000000	138,484,984
2009	1.040000	0.000000	149,039,423
2010	1.040000	0.000000	160,285,192
2011	1.040000	0.000000	165,112,692
2012	1.040000	0.000000	171,185,385
2013	1.040000	0.000000	177,498,255
2014	1.040000	0.000000	218,735,900
2015	1.040000	0.000000	249,952,308
2016 (School year under audit)	1.040000	0.000000	295,485,908
1000 TOTALS			

The District has a "Chapter 313 Agreement" in effect for the 2015-2016 school year in the amount of \$71,600,000. This amount is not included in the above assessed/appraised value of \$295,485,908.

(10) Beginning Balance 7/1/2015	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 6/30/2016
\$ 33,839	\$ -	\$ 555	\$ -	\$ (126)	\$ 33,158
3,519	-	40	-	7	3,486
4,180	-	44	-	6	4,142
5,744	-	325	-	1	5,420
7,077	-	815	-	1	6,263
10,405	-	3,058	-	2	7,349
18,171	-	7,313	-	49	10,907
30,573	-	12,523	-	(241)	17,809
72,303	-	45,827	-	(99)	26,377
-	3,073,053	3,422,252	-	414,894	65,695
<u>\$ 185,811</u>	<u>\$ 3,073,053</u>	<u>\$ 3,492,752</u>	<u>\$ -</u>	<u>\$ 414,494</u>	<u>\$ 180,606</u>

BRACKETT INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED JUNE 30, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 68,000	\$ 68,000	\$ 67,449	\$ (551)
5800	State Program Revenues	9,000	9,000	1,756	(7,244)
5900	Federal Program Revenues	228,189	228,189	235,469	7,280
5020	Total Revenues	305,189	305,189	304,674	(515)
EXPENDITURES:					
0035	Food Services	313,189	341,189	339,449	1,740
0051	Facilities Maintenance and Operations	42,000	14,000	12,850	1,150
6030	Total Expenditures	355,189	355,189	352,299	2,890
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(50,000)	(50,000)	(47,625)	2,375
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	50,000	50,000	50,000	-
1200	Net Change in Fund Balances	-	-	2,375	2,375
0100	Fund Balance - July 1 (Beginning)	89,483	89,483	89,483	-
3000	Fund Balance - June 30 (Ending)	\$ 89,483	\$ 89,483	\$ 91,858	\$ 2,375

REPORT ON
INTERNAL CONTROLS
AND
FEDERAL AWARDS

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Brackett Independent School District
Brackettville, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Brackett Independent School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Brackett Independent School District's basic financial statements, and have issued our report thereon dated August 26, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Brackett 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 Brackett Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Brackett 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Brackett 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2016-1.

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.

Coleman, Horton + Company, LLP

Uvalde, Texas
August 26, 2016

BRACKETT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND RESPONSE
FOR THE YEAR ENDED JUNE 30, 2016

Financial Statement Findings

---- None noted ----

Federal Award Findings and Questioned Costs

2016-1

CONDITION: The District was reimbursed for federal funds that have not been paid (accrued payroll funds were held about 30 days before being paid to employees).

CRITERIA: The LEA's payment system is required to minimize the number of days between the disbursement and the drawdown from the expenditure reporting system. If the LEA cannot meet this requirement and keeps federal grant cash on hand in the LEA's bank account, it is an indication that the LEA does not have good internal controls, indicating a higher risk under the new EDGAR rules.

CAUSE OF CONDITION: The District only draws down twice a year and includes all expenses accrued in its reimbursement report.

POTENTIAL EFFECT OF CONDITION: Payback of interest earned on all federal grant funds once interest earned equals \$500. Temporarily withhold cash payments, disallow all or part of an activity or action not in compliance, suspend or terminate the grant award, initiate suspension or disbarment proceedings, withhold further grant awards for the project or take other remedies that may be legally available.

RECOMMENDATION: Plan draw down date to coincide with day funds are paid out.

CLIENT RESPONSE: The District will submit draw down request to match cash disbursements. Marla Madrid, business manager, will monitor this procedure as discussed on August 9, 2016. Contact number is 830-563-2491.

BRACKETT INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

----- Not Applicable -----

BRACKETT INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Direct Programs</u>			
Rural School Achievement Program	84.358A	S358A150883	\$ 17,117
Total Direct Programs			<u>\$ 17,117</u>
<u>Passed Through State Department of Education</u>			
*ESEA, Title I, Part A - Improving Basic Programs	84.010A	16610101136901	\$ 176,095
*ESEA, Title I, Part C - Migratorv Children	84.011	16615001136901	<u>25,895</u>
Total Title I, Part A Cluster			<u>25,895</u>
IDEA - Part B, Formula	84.027	16660001136901	5,348
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	16694501136901	<u>42,429</u>
Total Passed Through State Department of Education			<u>\$ 249,767</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>\$ 266,884</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
<u>Passed Through Texas Dept of Human Services</u>			
Medicaid Administrative Claiming Program - MAC	93.778	N/A	\$ 6,195
Total Passed Through Texas Dept of Human Services			<u>\$ 6,195</u>
<u>Passed Through State Department of Education</u>			
Head Start	93.600	O6CH7059	<u>\$ 39,356</u>
Total Passed Through State Department of Education			<u>\$ 39,356</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			<u>\$ 45,551</u>
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401501	\$ 47,551
*National School Lunch Program - Cash Assistance	10.555	71301501	165,862
*National School Lunch Prog. - Non-Cash Assistance	10.555	N/A	<u>22,056</u>
Total CFDA Number 10.555			<u>187,918</u>
*Summer Feeding Program - Cash Assistance	10.559	N/A	<u>1,434</u>
Total Child Nutrition Cluster			<u>236,903</u>
Total Passed Through the State Department of Agriculture			<u>\$ 236,903</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>\$ 236,903</u>
 TOTAL EXPENDITURES OF FEDERAL AWARDS			 <u><u>\$ 549,338</u></u>

*Clustered Programs

The above amounts do not include SHARS receipts of \$106,387, which is included as federal revenue in the general fund.

See Accompanying Notes to the Schedule of Expenditures of Federal Awards

BRACKETT INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED JUNE 30, 2016

- For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
- The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types are accounted for using a current financial resources measurement focus. All Federal grant funds were accounted for in a Special Revenue Fund which is a Governmental Fund type.

With this measurement focus, only current assets and current liabilities and the fund balance are included on the balance sheet. Operating statements of these funds present increases and decreases in net current assets. The modified accrual basis of accounting is used for the Governmental Fund types. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable and available, and expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest on General Long-Term Debt, which is recognized when due, and certain compensated absences and claims and judgments, which are recognized when the obligations are expected to be liquidated with expendable available financial resources.

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

- The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*.
- CFDA number 10.550 pertains to food commodities distributed by USDA under the following categorical programs (as applicable): the National School Lunch Program (CFDA 10.555), the Child and Adult Care Food Program (CFDA 10.558), the Summer Food Service Program (CFDA 10.559), the Commodity Supplemental Food Program (CFDA 10.565), and the Food Distribution Program on Indian Reservations (CFDA 10.567). USDA deleted this number from the CFDA on May 6, 2008. The audit covering Brackett Independent School District fiscal year beginning July 1 2015, and future audits, will therefore identify commodity assistance by the CFDA numbers of the programs under which USDA donated the commodities.

SCHOOLS FIRST QUESTIONNAIRE

Brackett Independent School District

Fiscal Year 2016

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	No
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	0
SF11	Net Pension Assets (1920) at fiscal year-end.	0
SF12	Net Pension Liabilities (2540) at fiscal year-end.	1331478
SF13	Pension Expense (6147) at fiscal year-end.	153226