

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
Nacogdoches, Texas

ANNUAL FINANCIAL REPORT

For the Year Ended June 30, 2016

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INTRODUCTORY SECTION

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
CERTIFICATE OF BOARD
June 30, 2016

Nacogdoches Independent School District
Name of School District

Nacogdoches
County

174904
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 17th day of November, 2016.



Signature of Board Secretary



Signature of Board President

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

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Board of Trustees
Nacogdoches Independent School District
Nacogdoches, 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 Nacogdoches Independent School District ("the District"), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of June 30, 2016, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

The introductory and other supplementary information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2016, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report on page 63-64 is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
November 17, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2016

This discussion and analysis of the Nacogdoches Independent School District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2016. Please read it in conjunction with the District's financial statements, which begin on page 13.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of the District exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$49,426,414 (*Net Position*).
- The District's total Net Position increased by \$5,645,341.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$25,354,632, a decrease of \$1,159,124 in comparison with the prior year.
- At the end of the current fiscal year, the General Fund had an unassigned fund balance of \$15,671,800.
- The District recorded deferred outflows of \$8,517,184, deferred inflows of \$2,811,598, and a net pension liability of \$14,073,295 in order to comply with the provisions of the Governmental Accounting Standards Board ("GASB") Statement 68 - Accounting and Reporting for Pensions.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 13 and 14). These provide information about the activities of the District as a whole and present a long-term view of the District's property and obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 15) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how services of the District were sold to external customers. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the government.

The notes to the financial statements (starting on page 23) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities. The analysis of the District's overall financial condition and operation begins on page 13. Its primary objective is to show whether the District is better off or worse off as a result of period's activities. The Statement of Net Position includes all the District's assets and liabilities while the Statement of Activities includes all the revenue and expenses generated by the District's operations during the period. These apply the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current revenue and expenses are taken into account regardless of when cash is received or paid. The District's revenue is divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the District and grants provided by the U. S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenue), and general revenue provided by the taxpayers or by TEA in equalization funding processes (general revenue). All the District's assets are reported whether they serve the current or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

These two statements report the District's Net Position and changes in the Net Position.

The District's Net Position (the difference between assets and liabilities) provide one measure of the District's financial health or financial position. Over time, increases or decreases in the District's Net Position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, the District has one kind of activity:

Governmental Activities - Most of the District's basic services are reported here, including instruction, counseling, co-curricular activities, food services, transportation, maintenance, community services and general administration. Property taxes, tuition, fees, and state and federal grants finance most of these activities.

Reporting the District's Most Significant Funds

Fund Financial Statements. The Fund financial statements begin on page 15 and provide detailed information about the most significant funds - not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under ESEA Title I from the U. S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's two kinds of funds - governmental and proprietary - use different accounting approaches.

Governmental Funds - The District reports most of its basic services in governmental funds. These use modified accrual accounting (a method that measures the receipts and disbursement of cash and all other financial assets that can be readily converted to cash) and they report balances that are available for future spending. The governmental fund statements provide a detailed short-view of the District's general operations and the basic services it provides. We describe the District's general operations between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the governmental fund financial statements.

Proprietary Funds - Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The District has only one proprietary fund type, an internal service fund. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the various functions. The District uses the Internal Service Fund to report activities for its Print Shop.

The District as Trustee

Reporting the District's Fiduciary Responsibilities - The District is the trustee, or fiduciary, for money raised by student activities. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 22. We exclude these resources from the District's other financial statements because the District cannot use them to support its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analysis focuses on the Net Position (Table 1) and changes in Net Position (Table 2) of the District's governmental activities.

Net Position of the District's governmental activities increased from \$43,781,073 to \$49,426,414. Unrestricted Net Position - the part of Net Position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was \$13,724,632 at June 30, 2016.

The District's revenue exceeded the expenses by \$5,645,341.

**Nacogdoches Independent School District
Summary of Net Position
Table 1**

	GOVERNMENTAL ACTIVITIES	
	JUNE 30,	
	2016	2015
Current and other assets	\$ 31 254 630	\$ 31 767 649
Capital assets	71 708 168	66 660 355
TOTAL ASSETS	<u>102 962 798</u>	<u>98 428 004</u>
 TOTAL DEFERRED OUTFLOWS	 <u>9 430 004</u>	 <u>2 956 375</u>
Debt	40 167 198	42 513 998
Other liabilities	19 987 592	12 735 111
TOTAL LIABILITIES	<u>60 154 790</u>	<u>55 249 109</u>
 TOTAL DEFERRED INFLOWS	 <u>2 811 598</u>	 <u>2 354 197</u>
 Net Position:		
Invested in capital assets net of related debt	31 540 970	24 146 357
Restricted	4 160 812	3 897 680
Unrestricted	13 724 632	15 737 036
TOTAL NET POSITION	<u>\$ 49 426 414</u>	<u>\$ 43 781 073</u>

Nacogdoches Independent School District
Changes in Net Position
Table 2

	GOVERNMENTAL ACTIVITIES	
	YEAR ENDED JUNE 30,	
	2016	2015
Revenue:		
Program Revenues:		
Charges for services	\$ 2 157 668	\$ 2 114 012
Operating grants and contributions	11 238 250	9 729 382
General Revenues:		
Maintenance and operations tax	21 185 092	21 725 243
Debt service taxes	3 504 823	3 587 761
Investment earnings	63 926	18 090
Grants and contributions not restricted	30 767 749	29 306 206
Miscellaneous local and intermediate	151 376	168 676
TOTAL REVENUE	69 068 884	66 649 370
Expenses:		
Instruction	32 304 510	30 427 732
Instructional resources and media services	735 343	729 654
Curriculum and staff development	1 900 227	1 974 203
Instructional leadership	1 162 838	1 063 941
School leadership	2 928 728	2 728 749
Guidance, counseling and evaluation services	1 790 049	1 676 416
Attendance and social services	210 594	177 576
Health services	497 927	459 283
Student transportation	3 664 600	3 264 398
Food services	4 747 744	4 411 443
Co-curricular/extracurricular activities	1 926 351	1 745 227
General administration	2 646 091	2 163 665
Plant maintenance and operations	5 546 618	5 380 874
Security and monitoring services	481 716	334 918
Data processing services	1 226 270	1 053 203
Community services	133 559	130 937
Debt service	1 145 548	1 550 888
Capital outlay	8 111	565 359
Intergovernmental charges	366 719	368 372
TOTAL EXPENSES	63 423 543	60 206 838
INCREASE IN NET POSITION	\$ 5 645 341	\$ 6 442 532

THE DISTRICT'S FUNDS

As the District completed the period, its governmental funds (as presented in the balance sheet on page 15) reported a combined fund balance of \$25,354,632, which is lower than last year's total of \$26,513,756. Included in this change in fund balance is a decrease of \$1,693,293 in the District's General Fund.

Over the course of the fiscal year, the Board of Trustees amended the District's budget several times.

The District's General Fund balance of \$20,934,916 reported on page 15 differs from the General Fund's budgeted fund balance of \$14,616,081. This is principally due to expenses for capital items, plant operations and instruction that were not incurred prior to year end.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Asset

At the end of 2016, the District had \$71.7 million invested in a broad range of capital assets, including instructional facilities and equipment, transportation facilities and equipment, athletic facilities, and administrative and maintenance buildings and equipment. See page 31 for details.

Debt

The District had \$40.17 million in bonds and leases outstanding versus \$42.51 million last year. The decrease in the debt resulted from the payment of \$3.45 million in debt service, an increase of \$789,000 for new capital leases, and refunding of bonds resulting in savings of \$214,548. See pages 31 - 33 for details.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal year 2017 budget and tax rates. The District expects minimal change in tax revenue for fiscal year 2017. In contrast, the District expects expenditures to grow due to the continued effort to improve the District's facilities using fund balance.

If these estimates are realized, the District's budgetary General Fund balance is expected to decrease significantly by the close of 2017.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Chief Financial Officer at the District Central Administration Office, at 420 Shawnee Street, Nacogdoches, Texas 75961.

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
June 30, 2016

EXHIBIT A-1

DATA CONTROL CODES		GOVERNMENTAL ACTIVITIES
	ASSETS	
1110	Cash and cash equivalent	\$ 3 280 728
1120	Current investments	17 918 103
1225	Taxes receivable, net	419 149
1240	Due from other government	9 043 273
1290	Other receivables	143 815
1300	Inventory	449 562
1510	Land	2 442 412
1520	Building, net	59 014 788
1530	Furniture and equipment, net	6 985 871
1580	Construction in progress	3 265 097
1000	TOTAL ASSETS	102 962 798
	DEFERRED OUTFLOWS	
1410	Prepaid expenditures	510 098
2511	Loss on refunding	402 722
1705	Deferred outflows - Pension	8 517 184
	TOTAL ASSETS AND DEFERRED OUTFLOWS	112 392 802
	LIABILITIES	
	Current Liabilities:	
2110	Accounts payable	1 826 240
2140	Interest payable	458 286
2160	Accrued wages payable	4 088 057
2501	Due within one year	3 054 057
2516	Premium and discount on issuance of bonds	2 685 638
	Long Term Liabilities:	
2502	Due in more than one year	33 969 217
2540	Net pension liability	14 073 295
2000	TOTAL LIABILITIES	60 154 790
	DEFERRED INFLOWS	
2300	Deferred inflows - Pension	2 811 598
	TOTAL LIABILITIES AND DEFERRED INFLOWS	62 966 388
	NET POSITION	
3200	Invested in capital assets, net of related debt	31 540 970
	Restricted Net Assets:	
3800	Restricted for debt service	2 180 801
3800	Restricted for capital projects	50 000
3800	Restricted for food service	1 122 647
3800	Other restrictions of fund balance	807 364
3900	Unrestricted net position	13 724 632
3000	TOTAL NET POSITION	\$ 49 426 414

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

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016

EXHIBIT B-1

DATA CONTROL CODES	FUNCTIONS/PROGRAMS	1 <u>EXPENSES</u>	3 <u>CHARGES FOR SERVICES</u>	4 <u>OPERATING GRANTS AND CONTRIBUTIONS</u>	5 <u>CAPITAL GRANTS AND CONTRIBUTIONS</u>	<u>NET (EXPENSE) REVENUE AND CHANGES IN NET POSITION GOVERNMENTAL ACTIVITIES</u>
	Governmental Activities:					
0011	Instruction	\$ 32 304 510	\$ 871 174	\$ 4 969 850	\$ -	\$ (26 463 486)
0012	Instructional resources and media services	735 343	-	2 309	-	(733 034)
0013	Curriculum and staff development	1 900 227	-	1 289 827	-	(610 400)
0021	Instructional leadership	1 162 838	-	195 669	-	(967 169)
0023	School leadership	2 928 728	-	10 331	-	(2 918 397)
0031	Guidance, counseling, and evaluation services	1 790 049	-	315 065	-	(1 474 984)
0032	Attendance and social services	210 594	-	25 867	-	(184 727)
0033	Health services	497 927	-	44 378	-	(453 549)
0034	Student transportation	3 664 600	366 410	10 908	-	(3 287 282)
0035	Food services	4 747 744	530 854	4 123 309	-	(93 581)
0036	Co-curricular/extracurricular activities	1 926 351	298 417	-	-	(1 627 934)
0041	General administration	2 646 091	14 940	3 264	-	(2 627 887)
0051	Plant maintenance and operations	5 546 618	75 873	85 721	-	(5 385 024)
0052	Security and monitoring services	481 716	-	-	-	(481 716)
0053	Data processing services	1 226 270	-	2 040	-	(1 224 230)
0061	Community services	133 559	-	53 469	-	(80 090)
0071	Debt services	1 145 548	-	-	-	(1 145 548)
0081	Capital outlay	8 111	-	106 243	-	98 132
0099	Intergovernmental payments	366 719	-	-	-	(366 719)
	TOTAL GOVERNMENTAL ACTIVITIES	\$ <u>63 423 543</u>	\$ <u>2 157 668</u>	\$ <u>11 238 250</u>	\$ <u>-</u>	\$ <u>(50 027 625)</u>
	General Revenues:					
MT	Property taxes, levied for general purposes					21 185 092
DT	Property taxes, levied for debt service					3 504 823
GC	Grants and contributions not restricted					30 767 749
IE	Investment income					63 926
MI	Miscellaneous local and intermediate revenue					151 376
TR	TOTAL GENERAL REVENUES					<u>55 672 966</u>
CN	CHANGE IN NET POSITION					<u>5 645 341</u>
NB	Net position - Beginning					43 781 073
NE	NET POSITION - ENDING					\$ <u>49 426 414</u>

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

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2016

EXHIBIT C-1

DATA CONTROL CODES	10 GENERAL FUND	50 DEBT SERVICE FUND	OTHER GOVERN- MENTAL FUNDS	98 TOTAL GOVERN- MENTAL FUNDS	
ASSETS					
1110	Cash and cash equivalent	\$ 1 564 993	\$ 27 675	\$ 1 615 948	\$ 3 208 616
1120	Current investments	15 570 231	2 347 870	-	17 918 101
1225	Taxes receivable, net	365 055	54 095	-	419 150
1240	Due from other government	8 171 133	85 944	786 196	9 043 273
1260	Due from other funds	300 869	-	238 560	539 429
1290	Other receivables	16 697	36 713	90 404	143 814
1300	Inventory	404 838	-	37 892	442 730
1000	TOTAL ASSETS	<u>26 393 816</u>	<u>2 552 297</u>	<u>2 769 000</u>	<u>31 715 113</u>
DEFERRED OUTFLOWS					
1410	Deferred expenditures	510 098	-	-	510 098
	TOTAL ASSETS AND DEFERRED OUTFLOWS	<u>\$ 26 903 914</u>	<u>\$ 2 552 297</u>	<u>\$ 2 769 000</u>	<u>\$ 32 225 211</u>
LIABILITIES					
Current Liabilities:					
2110	Accounts payable	\$ 1 515 886	\$ -	\$ 308 057	\$ 1 823 943
2160	Accrued wages payable	4 088 057	-	-	4 088 057
2170	Due to other funds	-	-	539 429	539 429
2000	TOTAL LIABILITIES	<u>5 603 943</u>	<u>-</u>	<u>847 486</u>	<u>6 451 429</u>
DEFERRED INFLOWS					
2300	Deferred revenue	365 055	54 095	-	419 150
	TOTAL LIABILITIES AND DEFERRED INFLOWS	<u>5 968 998</u>	<u>54 095</u>	<u>847 486</u>	<u>6 870 579</u>
FUND BALANCES					
3410	Nonspendable - Inventory	404 838	-	37 892	442 730
3430	Nonspendable - Prepaid items	510 098	-	-	510 098
3420	Restricted - Food service	-	-	972 476	972 476
3480	Restricted - Debt service	-	2 498 202	-	2 498 202
3490	Other restrictions of fund balance	-	-	911 146	911 146
3550	Assigned - Construction	2 169 328	-	-	2 169 328
3510	Committed - Construction	2 178 852	-	-	2 178 852
3600	Unassigned	15 671 800	-	-	15 671 800
3000	TOTAL FUND BALANCES	<u>20 934 916</u>	<u>2 498 202</u>	<u>1 921 514</u>	<u>25 354 632</u>
4000	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 26 903 914</u>	<u>\$ 2 552 297</u>	<u>\$ 2 769 000</u>	<u>\$ 32 225 211</u>

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

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

EXHIBIT C-1R

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS	\$ 25 354 632
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$119,362,852, and the accumulated depreciation is \$47,654,684.	71 708 168
Property taxes receivable are not available to pay for the current period's expenditures, and therefore are deferred in the funds.	419 150
Long-term liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported as liabilities in the funds.	(39 764 476)
Internal service funds assets and liabilities are included in the Statement of Net Position.	76 649
Some Liabilities, Including Net Pension Obligations, are not Due and Payable in the Current Period and, therefore, are not Reported in the Funds:	
Net pension liability (from pension note)	(14 073 295)
Deferred Outflows and Inflows or Resources Related to Pensions are Applicable to Future Periods and therefore, are not Reported in the Funds:	
Deferred outflows of resources related to pensions of \$8,517,184 = \$6,495,754 deferred outflows of resources pension expense (from pension note) + \$2,021,430 deferred outflow of 2016 employer contributions related to pensions	8 517 184
Deferred inflows of resources related to pensions (from pension note)	<u>(2 811 598)</u>
TOTAL NET POSITION OF GOVERNMENTAL ACTIVITIES	\$ <u><u>49 426 414</u></u>

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

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Year Ended June 30, 2016

EXHIBIT C-2

DATA CONTROL CODES	10 GENERAL FUND	50 DEBT SERVICE FUND	OTHER GOVERN- MENTAL FUNDS	98 TOTAL GOVERN- MENTAL FUNDS	
Revenues:					
5700	Local and intermediate sources	\$ 22 032 556	\$ 3 512 735	\$ 1 484 055	\$ 27 029 346
5800	State program revenues	30 308 505	459 245	1 335 776	32 103 526
5900	Federal program revenues	1 090 726	-	8 811 746	9 902 472
5020	TOTAL REVENUES	<u>53 431 787</u>	<u>3 971 980</u>	<u>11 631 577</u>	<u>69 035 344</u>
Expenditures:					
Current:					
0011	Instruction	25 306 261	-	4 998 974	30 305 235
0012	Instructional resources and media services	596 375	-	9 017	605 392
0013	Curriculum and staff development	608 282	-	1 291 332	1 899 614
0021	Instructional leadership	949 709	-	217 678	1 167 387
0023	School leadership	2 809 935	-	122 420	2 932 355
0031	Guidance, counseling and evaluation services	1 432 592	-	341 566	1 774 158
0032	Attendance and social services	182 975	-	25 870	208 845
0033	Health services	492 467	-	1 571	494 038
0034	Student transportation	3 839 625	-	10 557	3 850 182
0035	Food services	81 527	-	4 689 908	4 771 435
0036	Co-curricular/extracurricular activities	1 431 864	-	204 463	1 636 327
0041	General administration	2 293 508	-	11 014	2 304 522
0051	Plant maintenance and operations	5 311 705	-	115 941	5 427 646
0052	Security and monitoring services	454 714	-	360	455 074
0053	Data processing services	916 731	-	5 784	922 515
0061	Community services	72 330	-	63 428	135 758
0071	Debt service	825 282	3 963 242	199 368	4 987 892
0081	Capital outlay	7 050 846	-	72 002	7 122 848
0099	Intergovernmental payments	366 719	-	-	366 719
6030	TOTAL EXPENDITURES	<u>55 023 447</u>	<u>3 963 242</u>	<u>12 381 253</u>	<u>71 367 942</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(1 591 660)</u>	<u>8 738</u>	<u>(749 676)</u>	<u>(2 332 598)</u>
Other Financing Sources (Uses):					
7912	Sale of real and personal property	76 012	-	-	76 012
7911	Sale of bonds	-	17 945 000	-	17 945 000
7913	Proceeds from capital leases	-	-	788 799	788 799
7916	Premium/discount on bond issuance	-	1 906 385	-	1 906 385
7915	Transfer in	18 565	-	196 460	215 025
8911	Transfer out	(196 210)	-	(18 815)	(215 025)
8949	Use of bond refunding proceeds	-	(19 542 722)	-	(19 542 722)
	TOTAL OTHER FINANCING SOURCES (USES)	<u>(101 633)</u>	<u>308 663</u>	<u>966 444</u>	<u>1 173 474</u>
1200	NET CHANGE IN FUND BALANCES	(1 693 293)	317 401	216 768	(1 159 124)
0100	Fund balance - Beginning	<u>22 628 209</u>	<u>2 180 801</u>	<u>1 704 746</u>	<u>26 513 756</u>
3000	FUND BALANCE - ENDING	<u>\$ 20 934 916</u>	<u>\$ 2 498 202</u>	<u>\$ 1 921 514</u>	<u>\$ 25 354 632</u>

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

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES,
 EXPENDITURES, AND CHANGES IN FUND BALANCES OF
 GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
 For the Year Ended June 30, 2016

EXHIBIT C-3

TOTAL NET CHANGE IN FUND BALANCES GOVERNMENTAL FUNDS \$ (1 159 124)

Amounts Reported for Governmental Activities in the Statement of Activities
 are Different Because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay expenditures to be capitalized \$8,727,034 reduced by depreciation expense of \$3,619,767 in the period.	5 107 267
In the statement of activities, only the gain on the disposal of capital assets is reported, whereas in the governmental funds, the proceeds from a sale increase financial resources. Thus, the change in net assets will differ from the change in fund balance by the cost of the asset removed.	(59 456)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of Net Position.	3 450 940
The issuance of debt is recognized as other financing sources in the funds, however, it is recognized as an increase in long term liabilities in the statement of net assets.	(1 097 462)
Because some property taxes will not be collected for several months after the District's fiscal year ends, they are not considered "available" revenues and are deferred in the governmental funds. Unavailable tax revenues changed by this amount this period.	(67 866)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. Accrued interest changed by this amount this period.	396 045
Internal service funds are used by the District to charge the costs of the print shop to individual funds.	11 364
Governmental Funds Report District Pension Contributions as Expenditures in the Government Wide Statements the Cost of Pension Benefits Earned Net of Employee Contributions is Reported as Pension Expense:	
Cost of benefits earned net of employee contributions (pension note)	<u>(936 367)</u>
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	<u>\$ 5 645 341</u>

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

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2016

EXHIBIT D-1

DATA CONTROL CODES		GOVERNMENTAL ACTIVITIES TOTAL INTERNAL SERVICE FUNDS
	ASSETS	
1110	Cash and cash equivalents	\$ 72 113
1300	Inventory	6 832
1000	TOTAL ASSETS	\$ 78 945
	LIABILITIES	
2110	Accounts payable	\$ 2 296
2000	TOTAL LIABILITIES	2 296
	NET POSITION	
3200	Unrestricted	76 649
3000	TOTAL NET POSITION	76 649
4000	TOTAL LIABILITIES AND NET POSITION	\$ 78 945

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

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS

For the Year Ended June 30, 2016

EXHIBIT D-2

DATA CONTROL CODES		GOVERNMENTAL ACTIVITIES TOTAL INTERNAL SERVICE FUNDS
	Operating Revenues:	
5700	Local and intermediate sources	\$ <u>84 848</u>
5020	TOTAL OPERATING REVENUES	<u>84 848</u>
	Operating Expenses:	
6100	Payroll costs	29 226
6200	Professional contracted services	31 920
6300	Supplies and materials	<u>12 338</u>
6030	TOTAL OPERATING EXPENSES	<u>73 484</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	11 364
0100	Net position at July 1	<u>65 285</u>
3000	NET POSITION AT JUNE 30	\$ <u><u>76 649</u></u>

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

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2016

EXHIBIT D-3

	GOVERNMENTAL ACTIVITIES
	TOTAL INTERNAL SERVICE FUNDS
Cash Flows from Operating Activities:	
Cash received from user charges	\$ 84 848
Cash payments for suppliers	<u>(73 942)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>10 906</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	10 906
Cash and cash equivalents - Beginning	<u>61 207</u>
CASH AND CASH EQUIVALENTS - ENDING	<u>\$ 72 113</u>
Reconciliation of Operating Income to Net Cash	
Provided By Operating Activities:	
Operating income	\$ 11 364
(Increase)/decrease in inventory	(379)
Increase/(decrease) in accounts payable	<u>(79)</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 10 906</u>

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

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
June 30, 2016

EXHIBIT E-1

DATA CONTROL CODES		AGENCY FUNDS
	ASSETS	
1110	Cash and cash equivalents	\$ 125 581
1120	Investments - Current	17 451
1290	Other receivable	<u>400</u>
1000	TOTAL ASSETS	<u>\$ 143 432</u>
	LIABILITIES	
2190	Due to student groups	\$ 131 117
2440	Other liabilities	<u>12 315</u>
2000	TOTAL LIABILITIES	<u>\$ 143 432</u>

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

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. The Reporting Entity

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

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 government-wide financial statements (i.e., the statement of Net Position and the statement of changes in Net Position) report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

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

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

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

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

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

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

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

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

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

The Proprietary Fund Types and Fiduciary Funds are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless these pronouncements conflict or contradict GASB pronouncements. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Fund Statement of Net Position. The fund equity is segregated into invested in capital assets net of related debt, restricted Net Position, and unrestricted Net Position.

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

D. Fund Accounting

The District reports the following major governmental funds:

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

The *Debt Service Fund* accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Additionally, the District reports the following fund types:

The *Special Revenue Funds* account for resources restricted to, or designated for, specific purposes by a grantor. Some federal and 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 the specified project periods.

Proprietary Fund Types:

The *Internal Service Fund* accounts for revenues and expenses related to services provided to organizations inside the District on a cost reimbursement basis. The District's Internal Service Fund is the Print Shop Fund.

Fiduciary Fund Types:

The *Agency Funds* and *Trust Funds* accounts for resources held for others in a custodial capacity. The District's Agency Funds are the Student Activity Funds.

Amounts reported as *program revenue* include charges to customers or applicants for goods, services, or privileges provided and operating grants and contributions. Internally dedicated resources are reported as *general revenue* rather than as program revenue. Likewise, general revenue include all taxes.

E. Other Accounting Policies

1. For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. Supplies are recorded as expenditures when they are purchased. Although commodities are received at no cost, receipts of food commodities are recorded as an expense and as revenue at their fair market value as supplied by the Texas Department of Human Services.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of Net Position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.
4. The District does not permit employees to accumulate earned but unused vacation and sick pay benefits.

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

ASSETS	YEARS
Buildings and improvements	40
Portable buildings	20
Vehicles	5
Furniture and equipment	5-7

6. Since Internal Service Funds support the operations of governmental funds, they are consolidated with the governmental funds in the government-wide financial statements. The expenditures of governmental funds that create the revenues of internal service funds are eliminated to avoid "grossing up" the revenues and expenses of the District as a whole.
7. In the fund financial statements, governmental funds report restricted fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Committed fund balance represents amount established by formal action of the School Board, and may be changed with formal action. Assigned fund balance represents amounts established by the Districts management by authority of the School Board, and may be changed by management.
8. When the District incurs an expense for which it may use either restricted, committed or assigned unrestricted assets, it uses the restricted, committed or assigned assets first whenever they will have to be returned if they are not used.
9. The Data Control Codes refer to the account code structure prescribed by TEA in the Financial Accountability System Resource Guide. Texas Education Agency required school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a statewide database for policy development and funding plans.
10. 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.
11. GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions" provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:
- Nonspendable fund balance - amounts that are not in nonspendable form (such as inventory) or are required to be maintained intact.

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- Restricted fund balance - amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation.
- Committed fund balance - amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority (i.e., School Board). To be reported as committed, amounts cannot be used for any other purpose unless the District takes the same highest level action to remove or change the constraint.
- Assigned fund balance - amounts the District intends to use for a specific purpose. Intent can be expressed by the School Board or by an official or body to which the School Board delegates the authority.
- Unassigned fund balance - amounts that are available for any purpose. Positive amounts are reported only in the general fund.

The School Board establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. This is typically done through adoption and amendment of the budget. A fund balance commitment is further indicated in the budget document as a designation or commitment of the fund (such as for special incentives). Assigned fund balance is established by School Board through adoption or amendment of the budget as intended for specific purpose (such as the purchase of fixed assets, construction, debt service, or for other purposes).

12. In addition to assets, the statement of financial position reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position or fund balance that applies to a future period(s) and thus, will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statement of financial position reports a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

13. Management has evaluated subsequent events through November 17, 2016, the date the financial statements were available to be issued.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in 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 budgeted revenues and expenditures for each of these funds.

The following procedures are followed in establishing the budgetary data reflected in the general purpose 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 10 days' public notice of the meeting must be given.

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 June 30, 2016

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - CONTINUED

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 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. At year end, the District exceeded the budget by function as indicated:

	DEBT SERVICE FUND		EXCEEDED BY
0071	Principal on Long-term Debt	\$	158 654

5. Encumbrances for goods or purchased services are documented by purchase orders or contract. Under Texas law, appropriations lapse at June 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. The District had no outstanding encumbrances.

NOTE 3 - DETAILED NOTES ON ALL FUNDS

- A. 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 the District 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 District 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 Funds Acceptances, (7) Mutual Funds, (8) Investment Pools, (9) Guaranteed Investment Contracts, (10) and Common Trust Funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The district is in substantial compliance with the requirements of the Act and with local policies.

Additional contractual provisions governing deposits and investments for the District are as follows:

- a. Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. To insure against this risk of loss, the District's contract with its depository bank specifies that the depository bank agrees to cover by corporate surety bond or pledge of approved securities an amount that is equal to funds anticipated to be on deposit from day to day that exceeds the value of FDIC insurance coverage. During the year ended June 30, 2016, the District had \$250,000 of FDIC insurance and pledged securities were adequate at all times to insure the District's deposits.

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 June 30, 2016

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

b. Custodial Credit Risk - Investments: For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the District's investments are held in external investment pools which are not subject to custodial credit risk.

B. The District's investments at June 30, 2016 are shown below:

NAME	FAIR VALUE
TexStar Investment Pool	\$ 1 753 540
Texas CLASS Investment Pool	9 813 736
Lone Star Investment Pool	1 860 392
Citizens 1 st Bank Investment Pool	3 507 433
TCM Bank Certificate of Deposit	248 000
Santander Bank National Certificate of Deposit	245 000
Everbank Certificate of Deposit	245 000
First Technology Federal Credit Union Certificate of Deposit	245 000
BancorpSouth Certificates of Deposit	17 451
TOTAL INVESTMENTS	\$ 17 935 552

The classification on the balance sheet is as follows:

Cash and Cash Equivalent:	
Cash in bank	\$ <u>3 208 616</u> (C-1)
Cash in bank	\$ <u>72 113</u> (D-1)
Cash in bank	\$ <u>125 581</u> (E-1)
Current Investment:	
Tex Star Investment Pool	\$ 1 753 540
Lone Star Investment Pool	1 860 392
Texas CLASS Investment Pool	9 813 736
Citizens 1 st Bank Investment Pool	3 507 433
Certificates of deposit	983 000
	\$ 17 918 101 (C-1)
Current Investment:	
Certificates of deposit	\$ <u>17 451</u> (E-1)

C. 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.

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 June 30, 2016

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

D. Delinquent Taxes Receivable

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

E. Disaggregation of Receivables and Deferred Revenue

Receivables at June 30, 2016 were as follows:

<u>FUND</u>	<u>PROPERTY TAXES</u>	<u>OTHER GOVERNMENTS</u>	<u>OTHER RECEIVABLES</u>	<u>TOTAL RECEIVABLES</u>
General	\$ 365 055	\$ 8 171 133	\$ 16 697	\$ 8 552 885
Debt service	54 095	85 944	36 713	176 752
Special revenue	-	786 196	90 404	876 600
TOTAL GOVERNMENTAL ACTIVITIES	419 150	9 043 273	143 814	9 606 237
Amounts not scheduled for collection	-	-	-	-
NET RECEIVABLES	\$ 419 150	\$ 9 043 273	\$ 143 814	\$ 9 606 237

Deferred revenue consisted of the following:

	<u>GENERAL</u>	<u>DEBT SERVICE</u>	<u>TOTAL</u>
Tax revenue	\$ 365 055	\$ 54 095	\$ 419 150

F. Interfund Balances and Activities

Interfund activity at June 30, 2016 consists of:

<u>DUE TO</u>	<u>DUE FROM</u>	<u>AMOUNT</u>	<u>PURPOSE</u>
General	Special Revenue	\$ 238 560	Short term advance
General	Special Revenue	62 309	Indirect cost
Special Revenue	Special Revenue	238 560	Short term advance
		<u>\$ 539 429</u>	
<u>TRANSFER IN</u>	<u>TRANSFER OUT</u>	<u>AMOUNT</u>	<u>PURPOSE</u>
Special Revenue	General	\$ 196 210	Fund transfer
General	Special Revenue	18 565	Fund transfer
Special Revenue	Special Revenue	250	Fund transfer
		<u>\$ 215 025</u>	

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2016

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

G. Capital Assets

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

	<u>BEGINNING BALANCE</u>	<u>INCREASES</u>	<u>DECREASES</u>	<u>ENDING BALANCE</u>
Government Activities:				
Capital Assets, Not Being Depreciated:				
Land and improvements	\$ 2 331 712	\$ 110 700	\$ -	\$ 2 442 412
Construction in progress	1 626 564	1 885 316	246 783	3 265 097
TOTAL CAPITAL ASSETS, NOT BEING DEPRECIATED	<u>3 958 276</u>	<u>1 996 016</u>	<u>246 783</u>	<u>5 707 509</u>
Capital Assets, Being Depreciated:				
Buildings	91 781 974	4 646 808	117 975	96 310 807
Furniture and equipment	15 729 115	2 330 993	715 572	17 344 536
TOTAL CAPITAL ASSETS, BEING DEPRECIATED	<u>107 511 089</u>	<u>6 977 801</u>	<u>833 547</u>	<u>113 655 343</u>
Less Accumulated Depreciation For:				
Buildings	34 969 467	2 385 540	58 988	37 296 019
Machinery and equipment	9 839 543	1 234 227	715 105	10 358 665
TOTAL ACCUMULATED DEPRECIATION	<u>44 809 010</u>	<u>3 619 767</u>	<u>774 093</u>	<u>47 654 684</u>
TOTAL CAPITAL ASSETS, BEING DEPRECIATED, NET	<u>62 702 079</u>	<u>3 358 034</u>	<u>59 454</u>	<u>66 000 659</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS, NET	<u>\$ 66 660 355</u>	<u>\$ 5 354 050</u>	<u>\$ 306 237</u>	<u>\$ 71 708 168</u>

Depreciation expense was charged to functions/programs of the government as follows:

Governmental Activities:	
Instruction	\$ 1 860 833
Instructional resources and media services	56 468
Curriculum development and instructional staff development	73
Instructional leadership	1 191
School leadership	9 385
Guidance, counseling and evaluation services	15 896
Social work services	1 755
Health services	3 893
Student transportation	497 620
Food services	94 680
Co-curricular/extra curricular	317 385
General administration	107 964
Plant maintenance and operations	226 436
Security and monitoring services	56 652
Data processing services	368 001
Community services	1 535
TOTAL DEPRECIATION EXPENSE - GOVERNMENTAL ACTIVITIES	<u>\$ 3 619 767</u>

H. Capital Leases

The Public Property Finance Act gives the District authority to enter into capital leases for the acquisition of personal property. The District has entered into lease agreements as lessee for financing the acquisition of several vehicles and other equipment in accordance with provisions of the Texas Education Code Section 45.109. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 June 30, 2016

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future rental payments as of June 30 as follows:

DATE OF ISSUE/ MATURITY	INTEREST RATE PAYABLE	AMOUNTS ORIGINAL ISSUE	CURRENT INTEREST	OUT- STANDING 07/01/2015	ISSUED	RETIRED	OUT- STANDING 06/30/2016
07/15/2014 - 10/15/2020	0.00%	\$ 1 912 213	\$ 48 085	\$ 1 626 396	\$ -	\$ 251 711	\$ 1 374 685
06/01/2016- 06/01/2019	0.73%	788 799	-	-	788 799	199 368	589 431
TOTAL		<u>\$ 2 701 012</u>	<u>\$ 48 085</u>	<u>\$ 1 626 396</u>	<u>\$ 788 799</u>	<u>\$ 451 079</u>	<u>\$ 1 964 116</u>

YEAR ENDED JUNE 30,	PAYMENT
2017	\$ 499 165
2018	499 165
2019	499 165
2020	299 796
2021	299 796
Total minimum lease payments	<u>2 097 087</u>
Less: Amounts representing interest	<u>(132 971)</u>
PRESENT VALUE OF MINIMUM LEASE PAYMENTS	<u>\$ 1 964 116</u>

Lease expenditures in 2016 were \$499,165.

The effective interest rate on the 2014 capital lease is 2.952%. By the terms of the lease agreement, the lease has 0% interest. Interest expense is, therefore, imputed in accordance with generally accepted accounting principles.

I. Long-term Debt

General Obligation Bonds

The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for governmental activities. General obligation bonds are direct obligations and pledge the full faith and credit of the government.

A summary of changes in bonds payable for the year ended June 30 is as follows:

DESCRIPTION	INTEREST RATE PAYABLE	AMOUNTS ORIGINAL ISSUE	CURRENT INTEREST	PAYABLE AMOUNTS OUTSTANDING 07/01/2015	ISSUED	RETIRED	OUT- STANDING 06/30/2016
Unlimited Tax Refunding Bonds, Series 2006	3.73 to 4.38%	\$ 25 035 000	\$ 886 844	\$ 21 175 000	\$ -	\$ (20 525 000)	\$ 650 000
2009 QSCB Bond	1.7%	7 900 000	134 300	5 404 018	-	(389 861)	5 014 157
Unlimited Tax Refunding Bonds, Series 2010	3.07%	14 295 000	507 000	12 675 000	-	(770 000)	11 905 000
Unlimited Tax Refunding Bonds, Series 2015	3.73 to 4.38%	8 580 000	-	-	8 580 000	(205 000)	8 375 000
Unlimited Tax Refunding Bonds, Series 2016	3.73 to 4.38%	9 365 000	-	-	9 365 000	(250 000)	9 115 000
Premium on Bond Issue	N/A	3 301 677	-	1 066 988	1 906 385	(287 735)	2 685 638
Accrued Interest	N/A	-	-	566 596	-	(108 310)	458 286
TOTAL			<u>\$ 1 528 144</u>	<u>\$ 40 887 602</u>	<u>\$ 19 851 385</u>	<u>\$ (22 535 906)</u>	<u>\$ 38 203 081</u>

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 June 30, 2016

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

Debt service requirements are as follows:

YEAR ENDING JUNE 30,	GENERAL OBLIGATIONS		TOTAL REQUIREMENTS
	PRINCIPAL *	INTEREST	
2017	\$ 2 599 861	\$ 1 199 250	\$ 3 799 111
2018	2 659 862	1 125 125	3 784 987
2019	2 744 861	1 047 925	3 792 786
2020	2 819 862	967 975	3 787 837
2021	3 299 862	880 025	4 179 887
2022-2026	19 004 849	2 709 525	21 714 374
2027-2028	1 930 000	116 600	2 046 600
TOTAL	\$ 35 059 157	\$ 8 046 425	\$ 43 105 582

* includes payments to QSCB Escrow account.

Changes in long-term liabilities on the Statement of Net Position are as follows:

	BEGINNING BALANCE	ADDITIONS	REDUCTIONS	ENDING BALANCE	DUE WITHIN ONE YEAR
General obligation bonds	\$ 39 254 018	\$ 17 945 000	\$ (22 139 861)	\$ 35 059 157	\$ 2 599 861
Capital leases	1 626 396	788 799	(451 079)	1 964 116	454 195
Accrued interest payable	566 596	-	(108 310)	458 286	-
Premium on bond issue	1 066 988	1 906 385	(287 735)	2 685 638	-
TOTAL	\$ 42 513 998	\$ 20 640 184	\$ (22 986 985)	\$ 40 167 197	\$ 3 054 056

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management had indicated that the District is in compliance with all significant limitations and restrictions at June 30.

At June 30, 2016, the District has deposited \$2,495,982 in an escrow account to be used to repay the 2009 QSCB Bonds when due in 2025.

Advanced Refunding

The District issued \$17,945,000 of unlimited tax refunding bonds to provide resources to purchase U.S. Government State and Local Government Series securities that were placed in an irrevocable trust for the purpose of generating resources for future debt service payment on the refunded bonds. The net proceeds of \$19,542,000 (after issuance costs of \$308,663, plus premium of \$1,906,385) were used to advance refund a portion of the Unlimited Tax Refunding Series 2006 bond with a total principal amount of \$21,175,000 and interest ranging from 4.0% to 4.375%. As a result, the refunded portion of the bonds are considered to be defeased and the liability has been removed from the government-wide financial statements.

This advance refunding was undertaken to reduce total debt service payments over the next ten years by \$2,843,228 and resulted in an economic gain of \$2,533,813.

EXCERPT FROM GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

Other Financing Sources (Uses):	
Proceeds of refunding bonds	\$ 17 945 000
Premium on bond issue	1 906 385
Payment to refunded bond escrow agent	(19 542 722)

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

J. Pension Plan

Plan Description:

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

All employees of public, state-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, Texas 78701-2698; or by calling 512.542.6592.

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 Cost of Living Adjustments, "COLAs". Ad hoc post-employment benefit changes, including ad hoc COLAs can be granted by the Texas Legislature as noted in the Plan description in (A) above.

Contributions:

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

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 June 30, 2016

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

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. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2016 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2015 and 2016.

	CONTRIBUTION RATES	
	2015	2016
Member	6.70%	6.70%
Non-Employer Contributing Entity (State)	6.80%	6.80%
Employers	6.80%	6.80%
Employer Contributions	\$ 730 448	\$ 1 178 875
Member Contributions	\$ 679 280	\$ 1 025 587
NECE On-behalf Contributions	\$ 1 577 004	\$ 1 677 890

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

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

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

In addition to the employer contributions listed above, 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.

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2016

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

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
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 years
Asset Valuation Method	5 year Market Value
Discount Rate	8.00%
Long-term expected Investment rate of Return	8.00%
Salary Increases*	4.25% to 7.25%
Weighted-average at Valuation Date	5.55%
Payroll Growth Rate	3.50%

* Includes Inflation of 3%

The 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 mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the Summer of 2014, the assumptions and methods are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011 they contained a significant margin for possible future mortality improvement. As of the date of the valuation there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, the post-retirement mortality rates for current and future retirees was decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards of Practice No. 35.

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
June 30, 2016

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

Discount Rate:

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

<u>ASSET CLASS</u>	<u>TARGET ALLOCATION</u>	<u>REAL RETURN GEOMETRIC BASIS</u>	<u>LONG-TERM EXPECTED PORTFOLIO REAL RATE OF RETURN*</u>
Global Equity			
U.S.	18.0%	7.0%	1.4%
Non-U.S. Developed	13.0%	7.3%	1.1%
Emerging Markets	9.0%	8.1%	0.9%
Directional Hedge Funds	4.0%	5.4%	0.2%
Private Equity	13.0%	9.2%	1.4%
Stable Value			
U.S. Treasuries	11.0%	2.9%	0.3%
Absolute Return	0.0%	4.0%	0.0%
Stable Value Hedge Funds	4.0%	5.2%	0.2%
Cash	1.0%	2.0%	0.0%
Real Return			
Global Inflation Linked Bonds	3.0%	3.1%	0.0%
Real Assets	16.0%	7.3%	1.5%
Energy and Natural Resources	3.0%	8.8%	0.3%
Commodities	0.0%	3.4%	0.0%
Risk Parity			
Risk Parity	5.0%	8.9%	0.4%
Alpha	0.0%		1.0%
Total	<u>100%</u>		<u>8.7%</u>

* 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.

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 June 30, 2016

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

	1% DECREASE IN DISCOUNT RATE (7.0%)	DISCOUNT RATE (8.0%)	1% INCREASE IN DISCOUNT RATE (9.0%)
District share of the net pension liability	\$ 22 050 201	\$ 14 073 295	\$ 7 429 028

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension:

At August 31, 2015, the District reported a liability of \$14,073,295 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District proportionate share of the net pension liability	\$ 14 073 295
State's proportionate share that is associated with the District	9 550 366
TOTAL	\$ 23 623 661

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

At August 31, 2015 the District's proportion of the collective net pension liability was 0.03981% which was an increase of 0.011% from its proportion measured as of August 31, 2014. The change in proportion was immaterial and therefore disregarded this year.

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

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

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the District's reporting date. A 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective September 1, 2014. The amount of the expected resultant change in the District's proportion cannot be determined at this time.

For the year ended August 31, 2015, the District recognized pension expense of \$936,367 and revenue of \$1,677,890 for support provided by the State.

At August 31, 2015, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	DEFERRED OUTFLOWS OF RESOURCES	DEFERRED INFLOWS OF RESOURCES
Differences between expected and actual economic experience	\$ 98 985	\$ 540 849
Changes in actuarial assumptions	416 035	502 074
Difference between projected and actual investment earnings	3 465 939	1 764 135
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	2 514 795	4 540
Contributions paid to TRS subsequent to the measurement date (to be calculated by employer)	2 021 430	-
TOTAL	\$ 8 517 184	\$ 2 811 598

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 June 30, 2016

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

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

YEAR ENDED AUGUST 31,	PENSION EXPENSE AMOUNT
2016	\$ 631 205
2017	\$ 631 205
2018	\$ 631 205
2019	\$ 1 219 250
2020	\$ 346 593
Thereafter	\$ 224 698

K. School District Retiree Health Plan

Plan Description. The Nacogdoches 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 Retired Plan provides health care coverage for certain persons (and their dependents) who retired under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. Section 1575.052 grants the TRS Board of Trustees the authority to establish and amend basic and optional group insurance coverage for participants. The TRS issues a publicly available financial report that includes financial statements and required supplementary information for TRS-Care. That report may be obtained by visiting the TRS Web site at www.trs.state.tx.us, by writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, or by calling 1.800.223.8778.

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 1.0% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2016, 2015 and 2014. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2016, 2015, and 2014, the State's contributions to TRS-Care were \$353,455, \$327,658, and \$396,316, respectively, the active member contributions were \$229,746, \$212,977, and \$349,120, respectively, and the school district's contributions were \$194,400, \$180,212, and \$192,010, respectively, which equaled the required contributions each year.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2016, 2015 and 2014, the subsidy payments received by TRS-Care on behalf of the District were \$104,680, \$102,936 and \$88,261, respectively.

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 June 30, 2016

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

L. Commitments and Contingencies

The District participates in grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charges to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired.

Lawsuits have been brought against the District for which a prediction regarding the outcome or amount of recovery cannot be made at this time. If the plaintiffs were to prevail in these suits, it is believed that monetary damages should not exceed the limits of the District's insurance coverage. In the opinion of the District, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants or litigation; therefore, no provision has been recorded in the accompanying combined financial statements for such contingencies.

M. Revenue from Local and Intermediate Sources

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

	GENERAL	SPECIAL REVENUE	DEBT SERVICE	TOTAL
Property taxes	\$ 20 947 559	\$ -	\$ 3 454 491	\$ 24 402 050
Penalties, interest and other tax-related income	305 399	-	50 332	355 731
Investment income	56 014	-	7 912	63 926
Shared service arrangements	-	603 850	-	603 850
Athletic activities	97 551	-	-	97 551
Food sales	-	530 854	-	530 854
Transportation	366 410	-	-	366 410
Tuition	22 070	-	-	22 070
Gifts and bequest	189 944	39 346	-	229 290
Extracurricular	246	200 620	-	200 866
Other	47 363	109 385	-	156 748
TOTAL	<u>\$ 22 032 556</u>	<u>\$ 1 484 055</u>	<u>\$ 3 512 735</u>	<u>\$ 27 029 346</u>

N. 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 are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Due from Other Governments.

FUND	STATE ENTITLEMENT	FEDERAL GRANTS	TOTAL
General	\$ 8 171 133	\$ -	\$ 8 171 133
Special revenue	138 972	733 168	872 140
TOTAL ENTITLEMENTS	<u>\$ 8 310 105</u>	<u>\$ 733 168</u>	<u>\$ 9 043 273</u>

O. Risk Management

The District is exposed to various risks of loss related to limited torts; theft of, damage to and destruction of assets; errors and omissions and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS - CONTINUED
 June 30, 2016

NOTE 3 - DETAILED NOTES ON ALL FUNDS - CONTINUED

P. Joint Ventured-Shared Service Arrangements

The District is the fiscal agent for a Shared Services Arrangement ("SSA"), which provides services to the member districts listed below. All services are provided by the fiscal agent. The member districts provide the funds to the fiscal agent. According to guidance provided in TEA's Resource Guide, the District has accounted for the fiscal agent's activities of the SSA in Special Revenue Fund No. 458, Shared Services Arrangements - Special Education and will be accounted for using Model 3 in the SSA section of the Resource Guide. Expenditures of the SSA are summarized below:

Nacogdoches Independent School District	\$	368 206
Garrison Independent School District		50 337
Henderson Independent School District		36 100
Woden Independent School District		34 599
Center Independent School District		33 600
Douglas Independent School District		16 772
Cushing Independent School District		16 700
Chireno Independent School District		13 846
Martinsville Independent School District		12 970
Rusk Independent School District		9 900
Etoile Independent School District		4 220
Shelbyville Independent School District		3 300
Tenaha Independent School District		3 300
TOTAL	\$	603 850

Shared Services Arrangement - Membership

The District participates in a shared services arrangement for a federal program.

The District does not account for revenue or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the District have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to Nacogdoches Independent School District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

REQUIRED SUPPLEMENTARY INFORMATION

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - GENERAL FUND
 For the Year Ended June 30, 2016

EXHIBIT G-1

DATA CONTROL CODES		BUDGETED AMOUNTS		ACTUAL	VARIANCE
		ORIGINAL	FINAL		
Revenues:					
5700	Local and intermediate sources	\$ 22 040 467	\$ 22 171 383	\$ 22 032 556	\$ (138 827)
5800	State program revenues	27 586 039	28 870 037	30 308 505	1 438 468
5900	Federal program revenues	543 000	885 163	1 090 726	205 563
5020	TOTAL REVENUES	<u>50 169 506</u>	<u>51 926 583</u>	<u>53 431 787</u>	<u>1 505 204</u>
Expenditures:					
Current:					
0011	Instruction	26 618 782	26 450 357	25 306 261	1 144 096
0012	Instructional resources and media services	639 819	635 607	596 375	39 232
0013	Curriculum and staff development	736 393	776 827	608 282	168 545
0021	Instructional leadership	972 407	996 177	949 709	46 468
0023	School leadership	2 939 431	2 992 269	2 809 935	182 334
0031	Guidance, counseling and evaluation services	1 411 737	1 434 140	1 432 592	1 548
0032	Attendance and social services	186 663	197 560	182 975	14 585
0033	Health services	491 205	494 439	492 467	1 972
0034	Student transportation	3 658 849	4 266 225	3 839 625	426 600
0035	Food services	80 556	81 527	81 527	-
0036	Co-curricular/extracurricular activities	1 343 473	1 461 659	1 431 864	29 795
0041	General administration	2 036 377	2 338 469	2 293 508	44 961
0051	Plant maintenance and operations	5 630 351	5 856 632	5 311 705	544 927
0052	Security and monitoring services	473 391	455 636	454 714	922
0053	Data processing services	978 960	966 511	916 731	49 780
0061	Community service	73 553	99 232	72 330	26 902
0071	Debt service	825 559	825 559	825 282	277
0081	Capital outlay	700 000	9 265 760	7 050 846	2 214 914
0099	Intergovernmental payments	372 000	369 000	366 719	2 281
6030	TOTAL EXPENDITURES	<u>50 169 506</u>	<u>59 963 586</u>	<u>55 023 447</u>	<u>4 940 139</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(8 037 003)</u>	<u>(1 591 660)</u>	<u>6 445 343</u>
Other Financing Sources (Uses):					
7900	Other financing sources	-	87 521	94 577	7 056
8900	Other financing (uses)	-	(62 646)	(196 210)	(133 564)
7080	TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>24 875</u>	<u>(101 633)</u>	<u>(126 508)</u>
1200	NET CHANGE IN FUND BALANCES	-	(8 012 128)	(1 693 293)	6 318 835
0100	Fund balance - Beginning	<u>22 628 209</u>	<u>22 628 209</u>	<u>22 628 209</u>	<u>-</u>
3000	FUND BALANCE - ENDING	<u>\$ 22 628 209</u>	<u>\$ 14 616 081</u>	<u>\$ 20 934 916</u>	<u>\$ 6 318 835</u>

See independent auditors' report.

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
 TEACHER RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS*

EXHIBIT G-2

	2015	2014
District's proportion of the net pension liability (asset)	0.0398128%	0.0288113%
District's proportionate share of the net pension liability (asset)	\$ 14 073 295	\$ 7 695 897
State's proportionate share of the net pension liability (asset) associated with the District	9 550 366	5 954 030
TOTAL	\$ 23 623 661	\$ 13 649 927
District's covered-employee payroll	\$ 35 345 503	\$ 34 993 098
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	39.82%	21.99%
Plan fiduciary net position as a percentage of the total pension liability	78.43%	83.25%

* This schedule is illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF THE DISTRICT CONTRIBUTIONS
 TEACHER RETIREMENT SYSTEM
 LAST TEN FISCAL YEARS*

EXHIBIT G-3

	2015	2014
Contractually required contribution	\$ 1 178 875	\$ 730 448
Contributions in relation to the contractually required contribution	1 178 875	730 448
CONTRIBUTION DEFICIENCY (EXCESS)	\$ -	\$ -
District's covered-employee payroll	\$ 35 345 503	\$ 34 993 098
Contributions as a percentage of covered-employee payroll	3.34%	2.09%

* This schedule is illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

COMBINING STATEMENTS AS
SUPPLEMENTARY INFORMATION

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 June 30, 2016

DATA CONTROL CODES		211 ESEA TITLE I IMPROVING BASIC SKILLS	212 ESEA TITLE I PART C MIGRANT	224 IDEA- PART B FORMULA	225 IDEA- PART B PRESCHOOL	240 NATIONAL BREAKFAST AND LUNCH PROGRAM
	ASSETS					
1110	Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 1 638	\$ 943 433
1240	Due from other government	264 835	2 113	265 494	-	-
1260	Due from other funds	-	-	-	-	-
1290	Other receivables	-	-	-	-	-
1310	Inventory	-	-	-	-	37 892
1000	TOTAL ASSETS	<u>\$ 264 835</u>	<u>\$ 2 113</u>	<u>\$ 265 494</u>	<u>\$ 1 638</u>	<u>\$ 981 325</u>
	LIABILITIES					
	Current Liabilities:					
2110	Accounts payable	\$ 24 633	\$ -	\$ -	\$ -	\$ 46 427
2170	Due to other funds	240 202	2 113	195 494	-	-
2000	TOTAL LIABILITIES	<u>264 835</u>	<u>2 113</u>	<u>195 494</u>	<u>-</u>	<u>46 427</u>
	FUND BALANCES					
	Fund Balances:					
3410	Nonspendable	-	-	-	-	37 892
3450	Restricted for food service	-	-	-	-	897 006
3490	Other restrictions of fund balance	-	-	70 000	1 638	-
3000	TOTAL FUND BALANCES	<u>-</u>	<u>-</u>	<u>70 000</u>	<u>1 638</u>	<u>934 898</u>
4000	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 264 835</u>	<u>\$ 2 113</u>	<u>\$ 265 494</u>	<u>\$ 1 638</u>	<u>\$ 981 325</u>

See independent auditors' report.

EXHIBIT H-1
PAGE 1 OF 3

242	244	255	263	274	289	315
SUMMER FEEDING PROGRAM	VOCATIONAL EDUCATION BASIC GRANT	TITLE II, PART A TRAINING AND RECRUITING	TITLE III LIMITED ENGLISH PROFICIENCY	GEAR UP PROGRAM	SUMMER SCHOOL LEP RIDER	SSA IDEA, PART B DISCRETIONARY
\$ 13 309	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
73 494	21 843	24 462	31 028	45 282	-	1 876
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>\$ 86 803</u>	<u>\$ 21 843</u>	<u>\$ 24 462</u>	<u>\$ 31 028</u>	<u>\$ 45 282</u>	<u>\$ -</u>	<u>\$ 1 876</u>
\$ 11 333	\$ -	\$ 4 309	\$ 20 000	\$ 1 134	\$ -	\$ -
-	21 843	20 153	11 028	44 148	-	1 876
<u>11 333</u>	<u>21 843</u>	<u>24 462</u>	<u>31 028</u>	<u>45 282</u>	<u>-</u>	<u>1 876</u>
-	-	-	-	-	-	-
75 470	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>75 470</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>\$ 86 803</u>	<u>\$ 21 843</u>	<u>\$ 24 462</u>	<u>\$ 31 028</u>	<u>\$ 45 282</u>	<u>\$ -</u>	<u>\$ 1 876</u>

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS - CONTINUED
 June 30, 2016

DATA CONTROL CODES		316 SSA IDEA, PART B DEAF	317 SSA - IDEA, B PRESCHOOL DEAF	340 SSA - IDEA C DEAF - EARLY INTERVENTION	385 STATE SUPPLEMENTAL VISUALLY IMPAIRED	397 ADVANCED PLACEMENT INCENTIVES
	ASSETS					
1110	Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 12	\$ 10 263
1240	Due from other government	2 741	-	-	-	-
1260	Due from other funds	-	-	-	-	-
1290	Other receivables	-	-	-	-	-
1310	Inventory	-	-	-	-	-
1000	TOTAL ASSETS	<u>\$ 2 741</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12</u>	<u>\$ 10 263</u>
	LIABILITIES					
	Current Liabilities:					
2110	Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
2170	Due to other funds	2 572	-	-	-	-
2000	TOTAL LIABILITIES	<u>2 572</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	FUND BALANCES					
	Fund Balances:					
3410	Nonspendable	-	-	-	-	-
3450	Restricted for food service	-	-	-	-	-
3490	Other restrictions of fund balance	169	-	-	12	10 263
3000	TOTAL FUND BALANCES	<u>169</u>	<u>-</u>	<u>-</u>	<u>12</u>	<u>10 263</u>
4000	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 2 741</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12</u>	<u>\$ 10 263</u>

See independent auditors' report.

410	411	435	458	461	498
TEXTBOOK	TECHNOLOGY	SSA REGIONAL DAY SCHOOL- DEAF	NACOGDOCHES CO. ALTERNATIVE EDUCATION CAMPUS	CAMPUS ACTIVITY FUNDS	DRAGON COMMUNITY PARTNERS
FUND	FUND				
\$ 208 656	\$ 155 651	\$ 33 482	\$ 87 931	\$ 147 680	\$ 13 893
-	-	53 028	-	-	-
-	238 560	-	-	-	-
88 687	-	-	1 674	43	-
-	-	-	-	-	-
<u>\$ 297 343</u>	<u>\$ 394 211</u>	<u>\$ 86 510</u>	<u>\$ 89 605</u>	<u>\$ 147 723</u>	<u>\$ 13 893</u>
\$ 199 368	\$ -	\$ -	\$ 456	\$ 397	\$ -
-	-	-	-	-	-
<u>199 368</u>	<u>-</u>	<u>-</u>	<u>456</u>	<u>397</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
<u>97 975</u>	<u>394 211</u>	<u>86 510</u>	<u>89 149</u>	<u>147 326</u>	<u>13 893</u>
<u>97 975</u>	<u>394 211</u>	<u>86 510</u>	<u>89 149</u>	<u>147 326</u>	<u>13 893</u>
<u>\$ 297 343</u>	<u>\$ 394 211</u>	<u>\$ 86 510</u>	<u>\$ 89 605</u>	<u>\$ 147 723</u>	<u>\$ 13 893</u>

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS - CONTINUED
 June 30, 2016

EXHIBIT H-1
 PAGE 3 OF 3

DATA CONTROL CODES		698 COOL SCHOOLS GRANT	TOTAL NONMAJOR GOVERN- MENTAL FUNDS
	ASSETS		
1110	Cash and cash equivalents	\$ -	\$ 1 615 948
1240	Due from other government	-	786 196
1260	Due from other funds	-	238 560
1290	Other receivables	-	90 404
1310	Inventory	-	37 892
1000	TOTAL ASSETS	<u>\$ -</u>	<u>\$ 2 769 000</u>
	LIABILITIES		
	Current Liabilities:		
2110	Accounts payable	\$ -	\$ 308 058
2170	Due to other funds	-	539 428
2000	TOTAL LIABILITIES	<u>-</u>	<u>847 486</u>
	FUND BALANCES		
	Fund Balances:		
3410	Nonspendable	-	37 892
3450	Restricted for food service	-	972 476
3490	Other restrictions of fund balance	-	911 146
3000	TOTAL FUND BALANCES	<u>-</u>	<u>1 921 514</u>
4000	TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -</u>	<u>\$ 2 769 000</u>

See independent auditors' report.

NACOGDOCHES 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		211 ESEA TITLE I IMPROVING BASIC SKILLS	212 ESEA TITLE I PART C MIGRANT	224 IDEA- PART B FORMULA	225 IDEA- PART B PRESCHOOL	240 NATIONAL BREAKFAST AND LUNCH PROGRAM
Revenues:						
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ -	\$ 530 721
5800	State program revenues	-	-	-	-	25 882
5900	Federal program revenues	<u>2 539 769</u>	<u>18 072</u>	<u>1 292 693</u>	<u>20 071</u>	<u>3 966 594</u>
5020	TOTAL REVENUES	<u>2 539 769</u>	<u>18 072</u>	<u>1 292 693</u>	<u>20 071</u>	<u>4 523 197</u>
Expenditures:						
Current:						
0011	Instruction	1 390 718	2 816	1 114 875	18 433	-
0012	Instructional resources and media services	2 309	-	-	-	-
0013	Curriculum and staff development	992 361	581	-	-	-
0021	Instructional leadership	76 746	10 624	-	-	-
0023	School leadership	3 395	-	-	-	-
0031	Guidance, counseling, and evaluation services	-	-	167 818	-	-
0032	Social work services	25 870	-	-	-	-
0033	Health services	1 072	-	-	-	-
0034	Student transportation	4 095	-	-	-	-
0035	Food services	-	-	-	-	4 525 255
0036	Co-curricular/extracurricular activities	-	-	-	-	-
0041	General administration	-	-	-	-	-
0051	Plant maintenance and operations	-	-	-	-	97 844
0052	Security and monitoring service	-	-	-	-	-
0053	Data processing services	-	-	-	-	-
0061	Community services	43 203	4 051	-	-	-
0071	Debt service	-	-	-	-	-
0081	Capital outlay	-	-	-	-	63 187
6030	TOTAL EXPENDITURES	<u>2 539 769</u>	<u>18 072</u>	<u>1 282 693</u>	<u>18 433</u>	<u>4 686 286</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>10 000</u>	<u>1 638</u>	<u>(163 089)</u>
Other Financing Sources (Uses):						
7900	Other financing sources	-	-	60 000	-	-
8900	Other financing uses	-	-	-	-	-
	TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>60 000</u>	<u>-</u>	<u>-</u>
1200	NET CHANGE IN FUND BALANCES	-	-	70 000	1 638	(163 089)
0100	Fund balances - Beginning	-	-	-	-	1 097 987
3000	FUND BALANCES - ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70 000</u>	<u>\$ 1 638</u>	<u>\$ 934 898</u>

See independent auditors' report.

EXHIBIT H-2
PAGE 1 OF 3

242	244	255	263	274	289	315
SUMMER FEEDING PROGRAM	VOCATIONAL EDUCATION BASIC GRANT	TITLE II, PART A TRAINING AND RECRUITING	TITLE III LIMITED ENGLISH PROFICIENCY	GEAR UP PROGRAM	SUMMER SCHOOL LEP RIDER	SSA IDEA, PART B DISCRETIONARY
\$ 133	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-
<u>215 330</u>	<u>79 151</u>	<u>250 746</u>	<u>142 770</u>	<u>177 141</u>	<u>7 791</u>	<u>30 496</u>
<u>215 463</u>	<u>79 151</u>	<u>250 746</u>	<u>142 770</u>	<u>177 141</u>	<u>7 791</u>	<u>30 496</u>
-	79 151	-	101 072	17 358	9 288	28 279
-	-	-	-	-	-	-
-	-	246 310	32 885	14 923	-	307
-	-	5 847	2 068	-	-	-
-	-	-	-	-	-	-
-	-	-	-	144 089	-	1 910
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	800	840	3 293	-
164 653	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	6 227	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
<u>164 653</u>	<u>79 151</u>	<u>252 157</u>	<u>143 052</u>	<u>177 210</u>	<u>12 581</u>	<u>30 496</u>
<u>50 810</u>	<u>-</u>	<u>(1 411)</u>	<u>(282)</u>	<u>(69)</u>	<u>(4 790)</u>	<u>-</u>
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
50 810	-	(1 411)	(282)	(69)	(4 790)	-
<u>24 660</u>	<u>-</u>	<u>1 411</u>	<u>282</u>	<u>69</u>	<u>4 790</u>	<u>-</u>
<u>\$ 75 470</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS - CONTINUED
 For the Year Ended June 30, 2016

DATA CONTROL CODES		316 SSA IDEA, PART B DEAF	317 SSA - IDEA, B PRESCHOOL DEAF	340 SSA - IDEA C DEAF - EARLY INTERVENTION	385 STATE SUPPLEMENTAL VISUALLY IMPAIRED	397 ADVANCED PLACEMENT INCENTIVES
Revenues:						
5700	Local and intermediate sources	\$ -	\$ -	\$ -	\$ -	\$ -
5800	State program revenues	-	-	-	-	-
5900	Federal program revenues	32 216	698	192	4 800	-
5020	TOTAL REVENUES	<u>32 216</u>	<u>698</u>	<u>192</u>	<u>4 800</u>	<u>-</u>
Expenditures:						
Current:						
0011	Instruction	31 006	429	192	4 867	-
0012	Instructional resources and media services	-	-	-	-	-
0013	Curriculum and staff development	1 202	269	-	-	-
0021	Instructional leadership	-	-	-	-	-
0023	School leadership	-	-	-	-	-
0031	Guidance, counseling, and evaluation services	-	-	-	-	-
0032	Social work services	-	-	-	-	-
0033	Health services	-	-	-	-	-
0034	Student transportation	8	-	-	-	-
0035	Food services	-	-	-	-	-
0036	Co-curricular/extracurricular activities	-	-	-	-	-
0041	General administration	-	-	-	-	-
0051	Plant maintenance and operations	-	-	-	-	-
0052	Security and monitoring service	-	-	-	-	-
0053	Data processing services	-	-	-	-	-
0061	Community services	-	-	-	-	-
0071	Debt service	-	-	-	-	-
0081	Capital outlay	-	-	-	-	-
6030	TOTAL EXPENDITURES	<u>32 216</u>	<u>698</u>	<u>192</u>	<u>4 867</u>	<u>-</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>(67)</u>	<u>-</u>
Other Financing Sources (Uses):						
7900	Other financing sources	-	-	-	-	-
8900	Other financing uses	-	-	-	-	-
	TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
1200	NET CHANGE IN FUND BALANCES	-	-	-	(67)	-
0100	Fund balances - Beginning	169	-	-	79	10 263
3000	FUND BALANCES - ENDING	<u>\$ 169</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12</u>	<u>\$ 10 263</u>

See independent auditors' report.

EXHIBIT H-2
PAGE 2 OF 3

410	411	435	458	461	498
TEXTBOOK	TECHNOLOGY	SSA	NACOGDOCHES CO.	CAMPUS	DRAGON
FUND	FUND	REGIONAL DAY	ALTERNATIVE	ACTIVITY	COMMUNITY
		SCHOOL-	EDUCATION	FUNDS	PARTNERS
		DEAF	CAMPUS		
\$ 89 128	\$ -	\$ 111 960	\$ 491 889	\$ 235 818	\$ 24 406
924 177	-	385 717	-	-	-
-	33 216	-	-	-	-
<u>1 013 305</u>	<u>33 216</u>	<u>497 677</u>	<u>491 889</u>	<u>235 818</u>	<u>24 406</u>
1 503 872	19 991	341 398	332 304	2 925	-
-	-	-	-	6 708	-
-	-	2 265	171	58	-
5 742	-	116 651	-	-	-
13 015	-	-	98 771	7 239	-
-	-	-	27 749	-	-
-	-	-	-	-	-
-	-	320	179	-	-
-	-	1 521	-	-	-
-	-	-	-	-	-
-	-	-	-	204 463	-
6 125	-	-	4 889	-	-
2 297	-	-	15 800	-	-
-	-	-	360	-	-
3 828	-	-	-	1 956	-
-	-	-	-	-	9 947
199 368	-	-	-	-	-
-	-	-	-	-	-
<u>1 734 247</u>	<u>19 991</u>	<u>462 155</u>	<u>480 223</u>	<u>223 349</u>	<u>9 947</u>
<u>(720 942)</u>	<u>13 225</u>	<u>35 522</u>	<u>11 666</u>	<u>12 469</u>	<u>14 459</u>
788 799	133 564	-	-	2 896	-
-	-	-	-	-	(18 815)
<u>788 799</u>	<u>133 564</u>	<u>-</u>	<u>-</u>	<u>2 896</u>	<u>(18 815)</u>
67 857	146 789	35 522	11 666	15 365	(4 356)
<u>30 118</u>	<u>247 422</u>	<u>50 988</u>	<u>77 483</u>	<u>131 961</u>	<u>18 249</u>
\$ <u>97 975</u>	\$ <u>394 211</u>	\$ <u>86 510</u>	\$ <u>89 149</u>	\$ <u>147 326</u>	\$ <u>13 893</u>

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS - CONTINUED
 For the Year Ended June 30, 2016

EXHIBIT H-2
 PAGE 3 OF 3

DATA CONTROL CODES		698 COOL SCHOOLS GRANT	TOTAL NONMAJOR GOVERN- MENTAL FUNDS
	Revenues:		
5700	Local and intermediate sources	\$ -	\$ 1 484 055
5800	State program revenues	-	1 335 776
5900	Federal program revenues	-	8 811 746
5020	TOTAL REVENUES	<u>-</u>	<u>11 631 577</u>
	Expenditures:		
	Current:		
0011	Instruction	-	4 998 974
0012	Instructional resources and media services	-	9 017
0013	Curriculum and staff development	-	1 291 332
0021	Instructional leadership	-	217 678
0023	School leadership	-	122 420
0031	Guidance, counseling, and evaluation services	-	341 566
0032	Social work services	-	25 870
0033	Health services	-	1 571
0034	Student transportation	-	10 557
0035	Food services	-	4 689 908
0036	Co-curricular/extracurricular activities	-	204 463
0041	General administration	-	11 014
0051	Plant maintenance and operations	-	115 941
0052	Security and monitoring service	-	360
0053	Data processing services	-	5 784
0061	Community services	-	63 428
0071	Debt service	-	199 368
0081	Capital outlay	<u>8 815</u>	<u>72 002</u>
6030	TOTAL EXPENDITURES	<u>8 815</u>	<u>12 381 253</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(8 815)</u>	<u>(749 676)</u>
	Other Financing Sources (Uses):		
7900	Other financing sources	-	985 259
8900	Other financing uses	-	(18 815)
	TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>966 444</u>
1200	NET CHANGE IN FUND BALANCES	(8 815)	216 768
0100	Fund balances - Beginning	<u>8 815</u>	<u>1 704 746</u>
3000	FUND BALANCES - ENDING	<u>\$ -</u>	<u>\$ 1 921 514</u>

See independent auditors' report.

OTHER SUPPLEMENTARY INFORMATION

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
For the Year Ended June 30, 2016

YEAR	TAX RATES		APPRAISED VALUE	BEGINNING	BEGINNING	M & O
	MAINTENANCE	DEBT SERVICE		BALANCE M & O	BALANCE I & S	CURRENT LEVY
2007 and prior years	VARIOUS	VARIOUS	VARIOUS	\$ 319 491	\$ 7 663	\$ -
2008	1.1700	0.2000	\$ 1 542 672 508	44 596	7 896	-
2009	1.1700	0.2000	\$ 1 615 666 640	52 777	9 171	-
2010	1.1700	0.2000	\$ 1 721 803 163	77 825	13 205	-
2011	1.1700	0.2000	\$ 1 686 532 186	100 532	17 523	-
2012	1.1700	0.2000	\$ 1 713 622 003	131 162	23 065	-
2013	1.1700	0.2000	\$ 1 793 826 690	185 278	32 319	-
2014	1.1700	0.1875	\$ 1 806 287 700	262 618	42 847	-
2015	1.1700	0.1875	\$ 1 858 297 570	532 174	87 927	-
2016	1.1700	0.1875	\$ 1 803 357 520	-	-	21 013 109
TOTALS				\$ 1 706 453	\$ 241 616	\$ 21 013 109

See independent auditors' report.

EXHIBIT J-1

I & S CURRENT LEVY	MAINTEN- ANCE COLLECTIONS	DEBT SERVICE COLLECTIONS	M & O ADJUST- MENTS	I & S ADJUST- MENTS	M & O ENDING BALANCE	I & S ENDING BALANCE	TOTAL ENDING BALANCE
\$ -	\$ 20 672	\$ 426	\$ (97 441)	\$ (1 730)	\$ 201 378	\$ 5 507	\$ 206 885
-	4 585	845	(7 469)	(1 277)	32 542	5 774	38 316
-	7 133	1 240	(7 942)	(1 377)	37 702	6 554	44 256
-	17 642	3 066	(7 866)	(1 345)	52 317	8 794	61 111
-	30 546	5 282	(9 652)	(1 461)	60 334	10 780	71 114
-	43 863	7 702	(10 408)	(1 757)	76 891	13 606	90 497
-	65 478	11 294	(14 655)	(2 505)	105 145	18 520	123 665
-	96 255	15 626	(14 655)	(2 288)	151 708	24 933	176 641
-	273 423	45 499	(35 805)	(5 678)	222 946	36 750	259 696
<u>3 467 469</u>	<u>20 354 995</u>	<u>3 359 653</u>	<u>(138 856)</u>	<u>(22 654)</u>	<u>519 258</u>	<u>85 162</u>	<u>604 420</u>
<u>\$ 3 467 469</u>	<u>\$ 20 914 592</u>	<u>\$ 3 450 633</u>	<u>\$ (344 749)</u>	<u>\$ (42 072)</u>	<u>\$ 1 460 221</u>	<u>\$ 216 380</u>	<u>\$ 1 676 601</u>

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
For the Year Ended June 30, 2016

EXHIBIT J-4

DATA CONTROL CODES	1 BUDGETED AMOUNTS		3	VARIANCE WITH FINAL BUDGET	
	ORIGINAL	FINAL	ACTUAL AMOUNTS	FAVORABLE (UNFAVORABLE)	
Revenues:					
5700	Total local and intermediate sources	\$ 544 200	\$ 544 200	\$ 530 721	\$ (13 479)
5800	State program revenues	22 000	23 056	25 882	2 826
5900	Federal program revenues	4 633 754	3 814 698	3 966 594	151 896
5020	TOTAL REVENUES	<u>5 199 954</u>	<u>4 381 954</u>	<u>4 523 197</u>	<u>141 243</u>
Expenditures:					
0011	Instructional	5 000	5 000	-	5 000
0035	Food services	5 020 226	4 627 387	4 525 255	102 132
0051	Plant maintenance and operations	117 925	123 925	97 844	26 081
0052	Security	6 803	5 803	-	5 803
0081	Capital outlay	50 000	423 000	63 187	359 813
6030	TOTAL EXPENDITURES	<u>5 199 954</u>	<u>5 185 115</u>	<u>4 686 286</u>	<u>498 829</u>
Other Financing Sources (Uses):					
7910	Other resources	-	7 161	-	(7 161)
	TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>7 161</u>	<u>-</u>	<u>(7 161)</u>
1200	NET CHANGE IN FUND BALANCE	-	(796 000)	(163 089)	632 911
0100	Fund balance - July 1 (beginning)	<u>1 097 987</u>	<u>1 097 987</u>	<u>1 097 987</u>	<u>-</u>
3000	FUND BALANCE - JUNE 30 (ENDING)	<u>\$ 1 097 987</u>	<u>\$ 301 987</u>	<u>\$ 934 898</u>	<u>\$ 632 911</u>

See independent auditors' report.

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
For the Year Ended June 30, 2016

EXHIBIT J-5

DATA CONTROL CODES	1 BUDGETED AMOUNTS		3	VARIANCE WITH FINAL BUDGET	
	ORIGINAL	FINAL	ACTUAL AMOUNTS	FAVORABLE (UNFAVORABLE)	
Revenues:					
5700	Total local and intermediate sources	\$ 3 040 848	\$ 3 490 848	\$ 3 512 735	\$ 21 887
5800	State program revenues	<u>236 733</u>	<u>373 301</u>	<u>459 245</u>	<u>85 944</u>
5020	TOTAL REVENUES	<u>3 277 581</u>	<u>3 864 149</u>	<u>3 971 980</u>	<u>107 831</u>
Expenditures:					
0071	Principal on long-term debt	<u>3 654 147</u>	<u>3 804 587</u>	<u>3 963 242</u>	<u>(158 655)</u>
6030	TOTAL EXPENDITURES	<u>3 654 147</u>	<u>3 804 587</u>	<u>3 963 242</u>	<u>(158 655)</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(376 566)</u>	<u>59 562</u>	<u>8 738</u>	<u>(50 824)</u>
Other Financing Sources (Uses):					
7910	Other resources	-	9 987 758	19 851 385	9 863 627
8910	Other uses	<u>-</u>	<u>(9 837 750)</u>	<u>(19 542 722)</u>	<u>(9 704 972)</u>
	TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>150 008</u>	<u>308 663</u>	<u>158 655</u>
1200	NET CHANGE IN FUND BALANCE	(376 566)	209 570	317 401	107 831
0100	Fund balance - July 1 (beginning)	<u>2 180 801</u>	<u>2 180 801</u>	<u>2 180 801</u>	<u>-</u>
3000	FUND BALANCE - JUNE 30 (ENDING)	\$ <u>1 804 235</u>	\$ <u>2 390 371</u>	\$ <u>2 498 202</u>	\$ <u>107 831</u>

See independent auditors' report.

COMPLIANCE SECTION

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

Board of Trustees
Nacogdoches Independent School District
Nacogdoches, Texas

Members of the Board of Trustees:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Nacogdoches 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 basic financial statements and have issued our report thereon dated November 17, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Nacogdoches 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 Nacogdoches Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Nacogdoches 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. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a significant deficiency. See Finding 2016-01.

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

Purpose of this Report

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

Lufkin, Texas
November 17, 2016


CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Trustees
Nacogdoches Independent School District
Nacogdoches, Texas

Members of the Board of Trustees:

Report on Compliance for Each Major Federal Program

We have audited Nacogdoches Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Nacogdoches Independent School District's major federal programs for the year ended June 30, 2016. Nacogdoches Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, Nacogdoches Independent School District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

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

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

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

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


CERTIFIED PUBLIC ACCOUNTANTS

Lufkin, Texas
November 17, 2016

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Year Ended June 30, 2016

A. Summary of the Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(s) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

2. Federal Awards

Internal control over major programs:

Material control over major programs:

Material weakness(es) identified? Yes No

Significant deficiency(s) identified that are not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Uniform Guidance? Yes No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
10.553/10.555	Child Nutrition Cluster

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? Yes No

B. Financial Statement Findings

2016-01:

Condition: The District exceeded budgeted expenditures in one function.

Criteria: Budgetary controls at the District are established at the function level for each fund. Expenditures over budgeted amounts require board approved budget amendments.

Effect: Actual expenditures exceeded budgeted amounts for these functions.

Cause: Expenditures in excess of the final budgeted amounts were caused by the refunding of debt. Debt issue cost is expensed in the year incurred.

Recommendation: We recommend that the District determine the amount of non-cash issuance costs prior to year-end. This will enable the District to better determine if budget amendments will be needed before the final deadline of June 30th.

Responsible Party: Lisa Barbarick, Chief Financial Officer

C. Federal Award Findings and Questioned Costs

NONE

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2016

Findings/Recommendation	Current Status
2015-01 The District exceeded budgeted expenditures in two functions, one in general fund and one in student nutrition.	Cleared - The District amended the budget for year end accruals.

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
For the Year Ended June 30, 2016

Financial Statement Findings:

2016-01 - Expenditures Exceeding Budgetary Amounts

District management will evaluate non-cash expenditures in relation to budgeted amounts to determine whether budget amendments are necessary.

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2016

EXHIBIT K-1
PAGE 1 OF 2

(1) FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM OR CLUSTER TITLE	(2) FEDERAL CFDA NUMBER	(2A) PASS-THROUGH ENTITY IDENTIFYING NUMBER	(3) TOTAL EXPENDITURES
U.S. Department of Education:			
Passed Through State Department of Education:			
211			
211	ESEA Title I Part A - Improving basic programs	84.010A 15610101174904	\$ 2 364 878
211	ESEA Title I 1003(A) Priority and focus	84.010A 15610112174904	240 951
212	ESEA Title I Part C - Migratory children	84.011 15615001174904	18 477
224	IDEA - Part B, Formula	84.027 156600011749046600	1 292 692
315	SSA - IDEA - Part B, discretionary	84.027 1566001111749046673	30 495
316	SSA - IDEA - Part B, deaf	84.027 156600011749046601	32 216
244	Vocational education - Basic grant	84.048 15420006174904	81 209
225	IDEA - Part B, preschool	84.173A 156610011749046610	20 071
317	SSA - IDEA - Part B, preschool deaf	84.173 156610011749046611	698
340	SSA - IDEA - Part C, def	84.181 143911011749043911	192
274	Gaining education awareness and readiness	84.334 P334A050251	177 141
263	English language acquisitions and language enhancement	84.365A 15671001174904	144 838
255	ESEA Title II - Part A, teacher and principal training	84.367A 15694501174904	256 920
289	Summer school LEP	84.369 69551402	7 791
	TOTAL DIRECT PROGRAMS		<u>4 668 569</u>
Passed Through Regions VII:			
385	State supplemental visually impaired	84.326 174-904	4 800
	TOTAL DEPARTMENT OF EDUCATION		<u>4 673 369</u>
U.S. Department of Health and Human Services:			
Direct Programs:			
242	Summer feeding program	10.559 174-904	215 329
	TOTAL DEPARTMENT OF HEALTH AND HUMAN SERVICES		<u>215 329</u>
U.S. Department of Agriculture:			
Direct Programs:			
495	Commodities *	10.565 174-904	284 317
	TOTAL DIRECT PROGRAMS		<u>284 317</u>
Passed Through Nacogdoches County:			
305	National forest revenue	10.666 174-904	3 482
Passed Through State Department of Agriculture:			
240	National school breakfast program *	10.553 71401501	1 130 847
240	National school lunch program *	10.555 71301501	2 551 430
	TOTAL PASSED THROUGH STATE DEPARTMENT OF AGRICULTURE		<u>3 682 277</u>
	TOTAL DEPARTMENT OF AGRICULTURE		<u>3 970 076</u>
Federal Communications Commission:			
	E-Rate	32.000 174-904	384 292
	TOTAL FEDERAL COMMUNICATIONS COMMISSION		<u>384 292</u>
	TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 9 243 066</u>

*Clustered programs as required by Compliance Supplement March, 2003.

See independent auditors' report.

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
 NOTES TO ACCOUNTING POLICIES FOR FEDERAL AWARDS
 For the Year Ended June 30, 2016

1. For all Federal programs, the District uses the fund types specified in Texas Education Agency's *Financial Accountability System Resource Guide*. Special revenue funds are used to account for resources restricted to, or designated for, specific purposes by a grantor. Federal and state financial assistance generally is accounted for in a Special Revenue Fund.
2. The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The Governmental Fund types and Expendable Trust Funds are accounted for using a current financial resources measurement focus. All Federal grants 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, the Expendable Trust Funds, and Agency Funds. This basis of accounting recognizes revenues in the accounting period in which they become susceptible to accrual, i.e., both measurable, 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.

3. 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 in the Uniform Guidance.

Total Expenditures for Federal Awards per Exhibit K-1		\$ 9 243 066
General Fund:		
Federal Revenues Excluded:		
School Health Program	93.990	616 368
Medicare Reimbursement Program	93.778	43 038
TOTAL FEDERAL REVENUE PER EXHIBIT C-2		\$ 9 902 472

NACOGDOCHES INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REQUIRED RESPONSES TO SELECTED
SCHOOL FIRST INDICATORS
As of June 30, 2016

Exhibit L-1

<u>DATA CONTROL CODES</u>		<u>RESPONSES</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year-end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on 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 governmental 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 financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	\$ -
SF11	Net Pension Assets (1920) at fiscal year end.	\$ -
SF12	Net Pension Liabilities (2540) at fiscal year end.	\$ 14 073 295
SF13	Pension expense (6147) at fiscal year end.	\$ 936 367

See independent auditors' report.