

SANTO INDEPENDENT SCHOOL DISTRICT

*ANNUAL FINANCIAL REPORT*

*FOR THE YEAR ENDED AUGUST 31, 2016*

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

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*Introductory Section*

CERTIFICATE OF BOARD

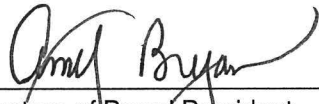
Santo Independent School District  
Name of School District

Palo Pinto  
County

182-904  
Co.-Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and (check one)  approved  disapproved for the year ended August 31, 2016, at a meeting of the board of trustees of such school district on the 17<sup>th</sup> day of November, 2016

  
\_\_\_\_\_  
Signature of Board Secretary

  
\_\_\_\_\_  
Signature of Board President

If the board of trustees disapproved of the auditor's report, the reason(s) for disapproving it is (are):  
(attach list as necessary)

*Financial Section*



**SNOW GARRETT WILLIAMS**  
CERTIFIED PUBLIC ACCOUNTANTS

**Independent Auditor's Report**

To the Board of Trustees  
Santo Independent School District  
P.O. Box 67  
Santo, Texas 76472

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Santo Independent School District ("the District") as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditor's Responsibility**

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

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

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

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

### **Emphasis of Matter**

#### *Change in Accounting Principle*

As described in Note A to the financial statements, in 2016, Santo Independent School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 72, *Fair Value Measurement and Application*. Our Opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2016, Santo Independent School District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 76, *Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. Our opinion is not modified with respect to this matter.

As described in Note A to the financial statements, in 2016, Santo Independent School District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 79, *Certain External Investment Pools and Pool Participants*. Our opinion is not modified with respect to this matter.

### **Other Matters**

#### *Required Supplementary Information*

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

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Santo Independent School District's basic financial statements. The introductory section and other supplementary information are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The other supplementary information, except for Exhibit J-2, is the responsibility of management and was 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 other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory section and Exhibit J-2 of the 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 11, 2016 on our consideration of Santo Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santo Independent School District's internal control over financial reporting and compliance.

Respectfully submitted,



Snow Garrett Williams  
November 11, 2016



## Management's Discussion and Analysis (Unaudited)

As management of the District, we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the year ended August 31, 2016. We encourage readers to consider the information presented here in conjunction with the District's financial statements, which follow this section.

### Financial Highlights

- The assets of the District exceeded its liabilities at the close of the most recent period by \$6,008,640 (*net position*). Of this amount, \$1,555,043 (*unrestricted net position*) may be used to meet the District's ongoing obligations.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,078,033. Approximately 64% of this total amount, \$1,339,986, is *available for spending* at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$1,339,986, or 28% of the total general fund expenditures.

### Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements.** The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information for all of the current year's revenues and expenses regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Both of the District's government-wide financial statements distinguish the functions of the District as being principally supported by taxes and intergovernmental revenues (*governmental activities*) as opposed to *business-type activities* that are intended to recover all or a significant portion of their costs through user fees and charges. The District has no *business-type activities* and no component units for which it is financially accountable. The government-wide financial statements can be found on pages 12-13 of this report.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related requirements. The fund financial statements provide more detailed information about the District's most significant funds-not the District as a whole.

- Some funds are required by State law and/or bond covenants.
- Other funds may be established by the Board to control and manage money for particular purposes or to show that it is properly using certain taxes or grants.

All of the funds of the District can be divided into two categories: governmental funds and fiduciary funds.

- **Governmental funds.** *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*. The District adopts an annual appropriated budget for its general fund, debt service fund and food service fund. A budgetary comparison schedule has been provided to demonstrate compliance with these budgets. The basic governmental fund financial statements can be found on pages 14-17 of this report.
- **Fiduciary funds.** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the District's own programs. The District is the trustee, or *fiduciary*, for these funds and is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position that can be found on page 18.
- **Notes to the financial statements.** The notes provide additional information that is essential to a complete understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 19-37 of this report.

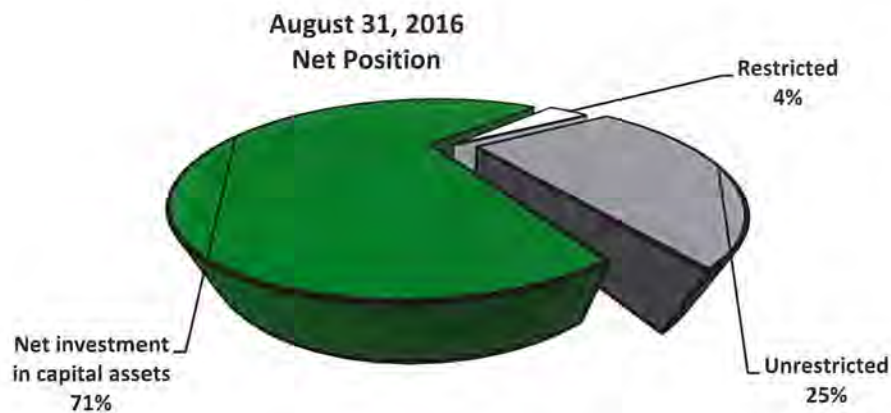
**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* that further explains and supports the information in the financial statements. Required supplementary information can be found on pages 38-42 of this report.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$6,008,640 as of August 31, 2016.

### The District's Net Position

	August 31, 2016	August 31, 2015
Current assets	\$ 2,405,766	\$ 2,581,666
Capital assets	5,213,180	5,523,362
Total assets	<u>7,618,946</u>	<u>8,105,028</u>
Deferred outflows of resources:		
Deferred outflow related to pensions	552,003	93,166
Total deferred outflows of resources	<u>552,003</u>	<u>93,166</u>
Current liabilities	321,189	736,739
Long-term liabilities outstanding	1,709,229	1,635,999
Total liabilities	<u>2,030,418</u>	<u>2,372,738</u>
Deferred outflows of resources:		
Deferred outflow related to pensions	131,891	95,300
Total deferred outflows of resources	<u>131,891</u>	<u>95,300</u>
Net position:		
Net investment in capital assets	4,203,470	4,088,645
Restricted	250,127	225,337
Unrestricted	1,555,043	1,416,174
Total net position	<u>\$ 6,008,640</u>	<u>\$ 5,730,156</u>



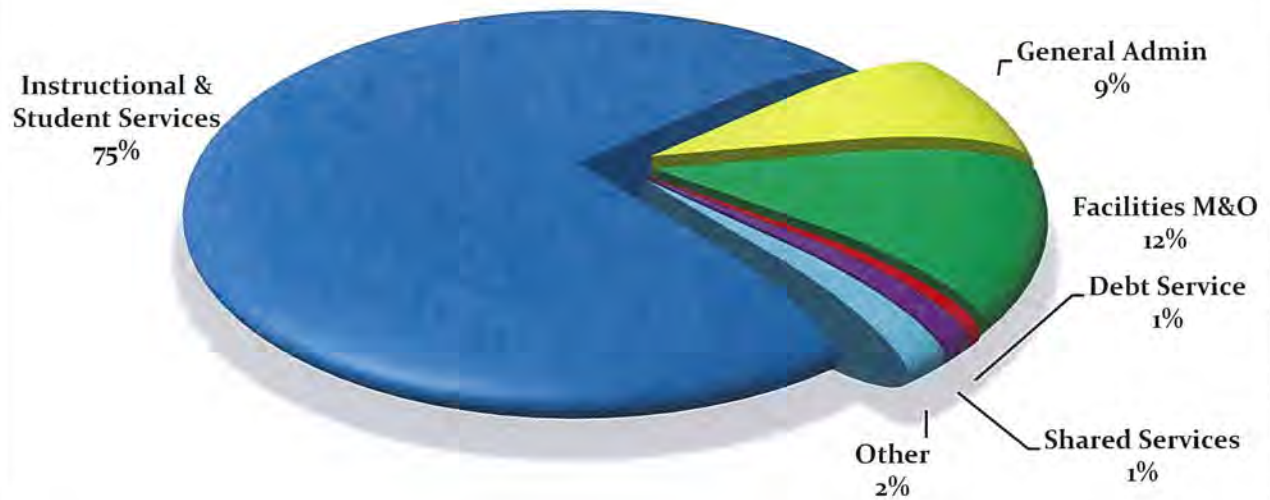
The net investment in capital assets (e.g., land, buildings, furniture and equipment, and construction in progress) is \$4,203,470. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional \$250,127 of the District's net position represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* \$1,555,043 may be used to meet the District's ongoing obligations. This surplus is not an indication that the District has significant resources available to meet financial obligations next year, but rather the result of having *long-term* commitments that are less than currently available resources.

**Governmental activities.** The District's total net position increased by \$278,484. The total cost of all *governmental activities* this year was \$5,862,757. The amount that our taxpayers paid for these activities through property taxes was \$3,562,195 or 61%.

**Changes in the District's Net Position**

	Fiscal Year August 31, 2016	Fiscal Year August 31, 2015
Revenues:		
Program revenues		
Charges for services	\$ 174,149	\$ 178,373
Operating grants and contributions	572,915	533,740
General revenues		
Property taxes	3,562,195	3,598,048
Grants and Contributions	1,401,718	1,303,514
Other	430,264	256,588
Total revenues	6,141,241	5,870,263
Expenses:		
Instruction	2,882,382	2,657,374
Instructional resources and media services	52,226	47,636
Curriculum and staff development	2,457	1,190
Instructional leadership	29,094	-
School leadership	366,297	323,069
Guidance, counseling & evaluation services	87,360	80,161
Health services	49,694	50,581
Student transportation	260,825	267,519
Food service	322,428	323,414
Cocurricular/extracurricular activities	329,835	317,649
General administration	508,699	486,726
Facilities maintenance and operations	733,651	677,891
Data processing services	113,881	103,960
Community services	1,448	1,127
Interest on long-term debt	39,017	55,807
Bond issuance costs	431	431
Payments related to shared service arrangements	81,982	75,991
Payments to juvenile justice alternative ed program	1,050	5,775
Total expenses	5,862,757	5,476,301
Increase (decrease) in net position	278,484	393,962
Beginning net position	5,730,156	5,689,165
Prior period adjustment	-	(352,971)
Beginning net position, as restated	5,730,156	5,336,194
Ending net position	\$ 6,008,640	\$ 5,730,156

## Expenditures by Function



### Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements, bond covenants, and segregation for particular purposes.

**Governmental funds.** The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the District's financing requirements. In particular, *unassigned fund balance* may serve as a useful measure of the District's net resources available for spending at the end of a fiscal year.

As of the end of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$2,078,033, an increase of \$251,285. Approximately 64% of this total amount (\$1,339,986) constitutes *unassigned fund balance*. The remainder of fund balance is *restricted and assigned* to indicate that it is not available for new spending because it is *restricted* for the (1) retirement of long-term debt (\$220,636), and for (2) federal/state grant restrictions (\$17,411), and *assigned* (1) to pay for other expenditures as needed (\$500,000).

The general fund is the primary operating fund of the District. At the end of the current fiscal year, unassigned fund balance of the general fund was \$1,339,986. As a measure of the general fund's liquidity, it may be useful to compare unassigned fund balance to the total fund expenditures. Unassigned fund balance represents 28% of the total general fund expenditures.

The fund balance of the District's general fund increased by \$225,456 during the current fiscal year.

### Budgetary Highlights

Over the course of the year, the District recommended and the Board approved several revisions to budgeted revenue and appropriations. These amendments fall into the following categories:

- Purchase of two new vehicles, \$19,300 and \$31,000
- Increase in contract labor to cover employee absent due to illness
- Increase due to special education bus repair
- Increases in custodial supplies



The following are significant variations between the final budget and actual amounts for the general fund:

- Actual revenues were higher than the budgeted amount by \$76,915 primary related to an increase in local and intermediate sources; and
- Actual expenditures were lower than budgeted by \$237,872 primarily due to a decrease within instruction, student (pupil) transportation, general administration, and plant maintenance and operations.

**Capital Asset and Debt Administration**

**Capital assets.** The District’s investment in capital assets for its governmental activities as of August 31, 2016, amounts to \$5,213,180 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, and furniture and equipment.

Major capital asset acquisitions during the year consisted of upgrades to the network infrastructure and vehicles.

**Districts Capital Assets (net of depreciation)**

	<u>August 31, 2016</u>	<u>August 31, 2015</u>
Land	\$ 144,286	\$ 144,286
Buildings and improvements	4,485,805	4,798,477
Furniture and equipment	583,089	545,529
Construction in progress	-	35,070
Total at historical cost	<u>\$ 5,213,180</u>	<u>\$ 5,523,362</u>

Additional information on the District’s capital assets can be found in Note C on page 26 of this report.

**Long-term debt.** As of August 31, 2016, the District had total general obligation bonded debt outstanding of \$645,000, a decrease of \$305,000 over the prior year. The District’s amortization on bond premiums was \$9,754, resulting in an ending balance of \$14,628. The District’s notes payable balance decreased by \$110,253, resulting in an outstanding balance of \$350,082. The net pension liability for fiscal year 2016 had an ending balance of \$812,949, derived from GASB 68 & 71 and an increase of \$501,415 from the prior year.

The District’s bonds are rated “AAA” by virtue of the guarantee of the Permanent School Fund of the State of Texas. The uninsured tax supported debt of the District is rated “Not Rated” by Moody’s. The district also has one other issue outstanding which is rated “Not Rated” by Moody’s by virtue of the guarantee of the Permanent School Fund of the State of Texas.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the District is \$27,202,784.

Additional information on the District’s long-term debt can be found in Note D on page 27 of this report.

**Economic Factors and Next Year’s Budgets and Rates**

- District enrollment has shown a trend, over the last two years, of minor increases as the year progresses.
- District ADA has remained steady with about 480 students which drives the state funding formulas.
- The district’s total tax rate increased from the preceding year from \$1.28664 to \$1.294069 per \$100 appraised value. (\$1.17 M&O and \$0.124069 I&S).
- The I&S (interest in sinking) rate for 2016-2017 is \$0.13803 per \$100 of assessed value which is a minor increase from last year.
- The school district has appropriated revenues and expenditures (federal, state, local) in 2016-2017 budget of \$5,668,683 and \$5,777,591 respectively.

## **Requests for Information**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances as well as demonstrate accountability for funds the District receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Santo Independent School District, P.O. Box 67, Santo, Texas 76472.

*Basic Financial Statements*



**SANTO INDEPENDENT SCHOOL DISTRICT**

## STATEMENT OF NET POSITION

AUGUST 31, 2016

Data Control Codes	1	Governmental Activities
<b>ASSETS:</b>		
1110	Cash and Cash Equivalents	\$ 2,211,560
1225	Property Taxes Receivable (Net)	121,046
1240	Due from Other Governments	13,160
1410	Unrealized Expenses	60,000
Capital Assets:		
1510	Land	144,286
1520	Buildings and Improvements, Net	4,485,805
1530	Furniture and Equipment, Net	<u>583,089</u>
1000	Total Assets	<u>7,618,946</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
1705	Deferred Outflow Related to Pensions	<u>552,003</u>
1700	Total Deferred Outflows of Resources	<u>552,003</u>
<b>LIABILITIES:</b>		
2110	Accounts Payable	934
2120	Short-Term Debt Payable	113,430
2140	Interest Payable	1,072
2165	Accrued Liabilities	187,587
2180	Due to Other Governments	18,166
Noncurrent Liabilities:		
2501	Due Within One Year	315,000
2502	Due in More Than One Year	581,280
2540	Net Pension Liability	<u>812,949</u>
2000	Total Liabilities	<u>2,030,418</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
2605	Deferred Inflow Related to Pensions	<u>131,891</u>
2600	Total Deferred Inflows of Resources	<u>131,891</u>
<b>NET POSITION:</b>		
3200	Net Investment in Capital Assets	4,203,470
Restricted For:		
3820	Federal and State Programs	17,411
3850	Debt Service	232,716
3900	Unrestricted	<u>1,555,043</u>
3000	Total Net Position	<u>\$ 6,008,640</u>

The accompanying notes are an integral part of this statement.

**SANTO INDEPENDENT SCHOOL DISTRICT**

## STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Functions/Programs	1  Expenses	3  Program Revenues		4  Net (Expense) Revenue and Changes in Net Position
			Charges for Services	Operating Grants and Contributions	
	Governmental Activities:				
11	<i>Instruction</i>	\$ 2,882,382	\$ 2,396	\$ 293,177	\$ (2,586,809)
12	<i>Instructional Resources and Media Services</i>	52,226	46	1,885	(50,295)
13	<i>Curriculum and Staff Development</i>	2,457	2	99	(2,356)
21	<i>Instructional Leadership</i>	29,094	--	--	(29,094)
23	<i>School Leadership</i>	366,297	352	14,545	(351,400)
31	<i>Guidance, Counseling, &amp; Evaluation Services</i>	87,360	74	3,056	(84,230)
33	<i>Health Services</i>	49,694	42	1,726	(47,926)
34	<i>Student Transportation</i>	260,825	229	10,179	(250,417)
35	<i>Food Service</i>	322,428	128,469	169,593	(24,366)
36	<i>Cocurricular/Extracurricular Activities</i>	329,835	41,187	12,680	(275,968)
41	<i>General Administration</i>	508,699	457	18,890	(489,352)
51	<i>Facilities Maintenance and Operations</i>	733,651	667	27,562	(705,422)
53	<i>Data Processing Services</i>	113,881	134	5,556	(108,191)
61	<i>Community Services</i>	1,448	1	60	(1,387)
72	<i>Interest on Long-term Debt</i>	39,017	--	10,057	(28,960)
73	<i>Bond Issuance Costs and Fees</i>	431	--	--	(431)
81	<i>Capital Outlay</i>	--	10	417	427
93	<i>Payments Related to Shared Services Arrangements</i>	81,982	82	3,393	(78,507)
95	<i>Payments to Juvenile Justice Alternative Ed. Programs</i>	1,050	1	40	(1,009)
TG	Total Governmental Activities	<u>5,862,757</u>	<u>174,149</u>	<u>572,915</u>	<u>(5,115,693)</u>
TP	Total Primary Government	<u>\$ 5,862,757</u>	<u>\$ 174,149</u>	<u>\$ 572,915</u>	<u>(5,115,693)</u>
	General Revenues:				
MT	<i>Property Taxes, Levied for General Purposes</i>				3,220,398
DT	<i>Property Taxes, Levied for Debt Service</i>				341,797
IE	<i>Investment Earnings</i>				25,568
GC	<i>Grants and Contributions Not Restricted to Specific Programs</i>				1,401,718
MI	<i>Miscellaneous</i>				404,696
TR	Total General Revenues				<u>5,394,177</u>
CN	Change in Net Position				278,484
NB	Net Position - Beginning				5,730,156
NE	Net Position - Ending				<u>\$ 6,008,640</u>

The accompanying notes are an integral part of this statement.

**SANTO INDEPENDENT SCHOOL DISTRICT**

BALANCE SHEET - GOVERNMENTAL FUNDS

AUGUST 31, 2016

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds	
<b>ASSETS:</b>				
1110	Cash and Cash Equivalents	\$ 1,974,040	\$ 237,520	\$ 2,211,560
1225	Taxes Receivable	200,934	22,981	223,915
1230	Allowance for Uncollectible Taxes (credit)	(91,968)	(10,901)	(102,869)
1240	Due from Other Governments	6,438	6,722	13,160
1410	Unrealized Expenditures	60,000	--	60,000
1000	Total Assets	<u>2,149,444</u>	<u>256,322</u>	<u>2,405,766</u>
<b>LIABILITIES:</b>				
Current Liabilities:				
2110	Accounts Payable	\$ 934	\$ --	\$ 934
2160	Accrued Wages Payable	177,902	6,078	183,980
2180	Due to Other Governments	18,166	--	18,166
2200	Accrued Expenditures	3,490	117	3,607
2300	Unearned Revenue - Property Taxes	108,966	12,080	121,046
2000	Total Liabilities	<u>309,458</u>	<u>18,275</u>	<u>327,733</u>
<b>FUND BALANCES:</b>				
Restricted Fund Balances:				
3450	Federal/State Funds Grant Restrictions	--	17,411	17,411
3480	Retirement of Long-Term Debt	--	220,636	220,636
Assigned Fund Balances:				
3590	Other Assigned Fund Balance	500,000	--	500,000
3600	Unassigned	1,339,986	--	1,339,986
3000	Total Fund Balances	<u>1,839,986</u>	<u>238,047</u>	<u>2,078,033</u>
4000	Total Liabilities and Fund Balances	<u>\$ 2,149,444</u>	<u>\$ 256,322</u>	<u>\$ 2,405,766</u>

The accompanying notes are an integral part of this statement.

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

Total fund balances - governmental funds balance sheet	\$ 2,078,033
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not reported in the funds.	5,213,180
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	121,046
Payables for bond principal which are not due in the current period are not reported in the funds.	(645,000)
Payables for bond interest which are not due in the current period are not reported in the funds.	(1,072)
Payables for notes which are not due in the current period are not reported in the funds.	(350,082)
Premiums on bonds which are not due and payable in the current period are not reported in the funds.	(14,628)
Recognition of the District's proportionate share of the net pension liability is not reported in the funds.	(812,949)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(131,891)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	<u>552,003</u>
Net position of governmental activities - Statement of Net Position	<u>\$ 6,008,640</u>

The accompanying notes are an integral part of this statement.

**SANTO INDEPENDENT SCHOOL DISTRICT**

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

Data Control Codes	10 General Fund	Other Governmental Funds	98 Total Governmental Funds
<b>REVENUES:</b>			
5700 <i>Local and Intermediate Sources</i>	\$ 3,419,952	\$ 473,028	\$ 3,892,980
5800 <i>State Program Revenues</i>	1,600,147	90,980	1,691,127
5900 <i>Federal Program Revenues</i>	--	283,506	283,506
5020 <b>Total Revenues</b>	<u>5,020,099</u>	<u>847,514</u>	<u>5,867,613</u>
<b>EXPENDITURES:</b>			
Current:			
0011 <i>Instruction</i>	2,272,050	191,039	2,463,089
0012 <i>Instructional Resources and Media Services</i>	45,353	--	45,353
0013 <i>Curriculum and Staff Development</i>	2,269	--	2,269
0023 <i>School Leadership</i>	351,606	--	351,606
0031 <i>Guidance, Counseling, &amp; Evaluation Services</i>	74,086	--	74,086
0033 <i>Health Services</i>	41,814	--	41,814
0034 <i>Student Transportation</i>	229,551	696	230,247
0035 <i>Food Service</i>	--	284,539	284,539
0036 <i>Cocurricular/Extracurricular Activities</i>	306,560	--	306,560
0041 <i>General Administration</i>	457,019	--	457,019
0051 <i>Facilities Maintenance and Operations</i>	666,349	3,867	670,216
0053 <i>Data Processing Services</i>	134,582	--	134,582
0061 <i>Community Services</i>	1,337	--	1,337
0071 <i>Principal on Long-term Debt</i>	110,253	305,000	415,253
0072 <i>Interest on Long-term Debt</i>	13,155	36,113	49,268
0073 <i>Bond Issuance Costs and Fees</i>	--	431	431
0081 <i>Capital Outlay</i>	9,950	--	9,950
0093 <i>Payments to Shared Service Arrangements</i>	81,982	--	81,982
0095 <i>Payments to Juvenile Justice Alternative Education Programs</i>	1,050	--	1,050
6030 <b>Total Expenditures</b>	<u>4,798,966</u>	<u>821,685</u>	<u>5,620,651</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>221,133</u>	<u>25,829</u>	<u>246,962</u>
Other Financing Sources and (Uses):			
7912 <i>Sale of Real or Personal Property</i>	4,323	--	4,323
7080 <b>Total Other Financing Sources and (Uses)</b>	<u>4,323</u>	<u>--</u>	<u>4,323</u>
1200 <b>Net Change in Fund Balances</b>	<u>225,456</u>	<u>25,829</u>	<u>251,285</u>
0100 <b>Fund Balances - Beginning</b>	<u>1,614,530</u>	<u>212,218</u>	<u>1,826,748</u>
3000 <b>Fund Balances - Ending</b>	<u>\$ 1,839,986</u>	<u>\$ 238,047</u>	<u>\$ 2,078,033</u>

The accompanying notes are an integral part of this statement.

**SANTO INDEPENDENT SCHOOL DISTRICT**

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

Net change in fund balances - total governmental funds	\$ 251,285
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	105,890
The depreciation of capital assets used in governmental activities is not reported in the funds.	(416,072)
The gain or loss on the sale of capital assets is not reported in the funds.	4,323
All proceeds from the sale of capital assets are reported in the funds but not in the SOA.	(4,323)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(8,954)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	305,000
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	110,253
Bond premiums are amortized in the SOA but not in the funds.	9,754
(Increase) decrease in accrued interest from beginning of period to end of period.	497
Pension expense related to GASB 68 is recorded in the SOA but not in the funds.	(170,692)
Pension contributions made after the measurement date but in current FY were de-expended and reduced NPL.	71,924
The District's share of the unrecognized deferred inflows and outflows for the pension plan was amortized.	<u>19,599</u>
Change in net position of governmental activities - Statement of Activities	<u>\$ 278,484</u>

The accompanying notes are an integral part of this statement.

**SANTO INDEPENDENT SCHOOL DISTRICT**

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

AUGUST 31, 2016

Data Control Codes		Agency Fund	Student Activity
	<b>ASSETS:</b>		
1110	<i>Cash and Cash Equivalents</i>	\$ 92,974	
1000	Total Assets	92,974	
	<b>LIABILITIES:</b>		
	Current Liabilities:		
2190	<i>Due to Student Groups</i>	\$ 92,974	
2000	Total Liabilities	92,974	
	<b>NET POSITION:</b>		
3000	Total Net Position	\$ --	

The accompanying notes are an integral part of this statement.

# SANTO INDEPENDENT SCHOOL DISTRICT

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

### A. Summary of Significant Accounting Policies

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

#### 1. Reporting Entity

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

#### 2. Basis of Presentation, Basis of Accounting

##### a. Basis of Presentation

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

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

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

The District reports the following major governmental funds:

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

In addition, the District reports the following fund types:

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



# SANTO INDEPENDENT SCHOOL DISTRICT

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

a. Basis of Presentation (continued)

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

b. Measurement Focus, Basis of Accounting

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

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

3. Financial Statement Amounts

a. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (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 fiscal year.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

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

3. Financial Statement Amounts (continued)

b. Inventories and Prepaid Items

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

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

c. Capital Assets

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

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings & Improvements	10-30
Equipment	5-12

d. Deferred Outflows and Inflows of Resources

In addition to assets, the statements of financial position (the government-wide Statement of Net Position and governmental funds Balance Sheet) will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position and/or fund balance that applies to one or more future periods and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to one or more future periods and so will not be recognized as an inflow of resources (revenue) until that time.

e. Receivable and Payable Balances

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

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

f. Interfund Activity

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

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

3. Financial Statement Amounts (continued)

g. Use of Estimates

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

h. Data Control Codes

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

i. Fund Balances - Governmental Funds

Fund balances of the governmental funds are classified as follows:

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

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

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

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

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

j. Net Position Flow Assumption

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

## SANTO INDEPENDENT SCHOOL DISTRICT

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED AUGUST 31, 2016

#### 3. Financial Statement Amounts (continued)

##### k. Fund Balance Flow Assumptions

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

#### 4. Pensions

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

#### 5. New Accounting Standards Adopted

In fiscal year 2016, the District adopted three new statements of financial accounting standards issued by the Governmental Accounting Standards Board (GASB):

-- Statement No. 72, *Fair Value Measurement and Application*

-- Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Government*

-- Statement No. 79, *Certain External Investment Pools and Pool Participants*

- a. Statement No. 72 requires state and local governments to measure investments at fair value using a consistent definition and valuation techniques; also defines what assets and liabilities governments should measure at fair value and expands fair value disclosures in financial disclosure notes. While the Statement generally requires restatement of prior period balances in the year of implementation, the nature of the District's investments was such that their carrying amount was not affected.
- b. The GAAP hierarchy prioritizes guidance governments follow when preparing U.S. GAAP financial statements. Statement No. 76 reduces authoritative GAAP hierarchy from four categories to two and lists the order of priority for pronouncements to which a government should look for guidance.
- c. Statement No. 79 establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets the applicable criteria established in this statement.

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

**B. Deposits and Investments**

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

**1. Cash Deposits:**

At August 31, 2016, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$2,304,534 and the bank balance was \$2,376,178. The District's cash deposits at August 31, 2016 and during the year ended August 31, 2016, were entirely covered by FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

**2. Investments:**

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

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

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

The District has no investments at August 31, 2016.

**3. Analysis of Specific Deposit and Investment Risks**

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

**a. Credit Risk**

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

## **SANTO INDEPENDENT SCHOOL DISTRICT**

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

#### 3. Analysis of Specific Deposit and Investment Risks (continued)

##### b. Custodial Credit Risk

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

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

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

##### c. Concentration of Credit Risk

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

##### d. Interest Rate Risk

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

##### e. Foreign Currency Risk

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

#### Investment Accounting Policy

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

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

C. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Governmental activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 144,286	\$ --	\$ --	\$ 144,286
Construction in progress	35,070	--	35,070	--
Total capital assets not being depreciated	<u>179,356</u>	<u>--</u>	<u>35,070</u>	<u>144,286</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	10,167,575	9,950	--	10,177,525
Equipment	1,387,277	131,010	119,767	1,398,520
Total capital assets being depreciated	<u>11,554,852</u>	<u>140,960</u>	<u>119,767</u>	<u>11,576,045</u>
Less accumulated depreciation for:				
Buildings and improvements	(5,369,098)	(322,622)	--	(5,691,720)
Equipment	(841,748)	(93,450)	(119,767)	(815,431)
Total accumulated depreciation	<u>(6,210,846)</u>	<u>(416,072)</u>	<u>(119,767)</u>	<u>(6,507,151)</u>
Total capital assets being depreciated, net	<u>5,344,006</u>	<u>(275,112)</u>	<u>--</u>	<u>5,068,894</u>
Governmental activities capital assets, net	<u>\$ 5,523,362</u>	<u>\$ (275,112)</u>	<u>\$ 35,070</u>	<u>\$ 5,213,180</u>

Depreciation was charged to functions as follows:

Instruction	\$ 203,762
Instructional Resources and Media Services	3,752
Curriculum and Staff Development	188
School Leadership	29,094
Guidance, Counseling, & Evaluation Services	6,128
Health Services	3,459
Student Transportation	19,047
Food Services	23,431
Extracurricular Activities	25,368
General Administration	37,814
Plant Maintenance and Operations	52,785
Data Processing Services	11,133
Community Services	111
	<u>\$ 416,072</u>

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

D. Long-Term Obligations

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

1. Long-Term Obligation Activity

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

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 950,000	\$ --	\$ 305,000	\$ 645,000	\$ 315,000
Premium (amortized)	24,382	--	9,754	14,628	--
Notes Payable	460,335	--	110,253	350,082	113,430
Net Pension Liability *	311,534	501,415	--	812,949	--
Total governmental activities	<u>\$ 1,746,251</u>	<u>\$ 501,415</u>	<u>\$ 425,007</u>	<u>\$ 1,822,659</u>	<u>\$ 428,430</u>

\* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Net Pension Liability *	Governmental	General Fund

2. Debt Service Requirements

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

<u>Year Ending August 31,</u>	<u>Governmental Activities - Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 315,000	\$ 24,676	\$ 339,676
2018	330,000	12,705	342,705
Totals	<u>\$ 645,000</u>	<u>\$ 37,381</u>	<u>\$ 682,381</u>

The interest rate on the Unlimited Tax School Building and Refunding Bonds Series 2003 range from 3.65% to 3.85% and matures on August 15, 2018.

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

<u>Year Ending August 31,</u>	<u>Governmental Activities - Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 113,430	\$ 9,977	\$ 123,408
2018	116,663	6,745	123,408
2019	119,989	3,420	123,408
Totals	<u>\$ 350,082</u>	<u>\$ 20,142</u>	<u>\$ 370,224</u>

The interest rate on the 2013 Promissory Note is 2.85% and matures on May 1, 2019.



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

E. Commitments Under Noncapitalized Leases

Commitments under operating (noncapitalized) lease agreements for facilities and equipment provide for minimum future rental payments as of August 31, 2016, as follows:

<u>Year Ending August 31,</u>	
2017	\$ 30,824
2018	30,824
2019	30,824
2020	9,829
2021	1,406
Total Minimum Rentals	<u>\$ 103,707</u>
Rental Expenditures in 2016	<u>\$ 30,824</u>

F. Risk Management

Property Casualty Program

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2016, the District participated in the Texas Association of School Boards Risk Management Fund (the Fund) with coverage in Auto Liability, Auto Physical Damage, Property, and Legal Liability. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three years.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its Auto, Liability and Property programs. The terms and limits of the stop-loss program vary by line coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2016, the Fund anticipates Santo ISD has no additional liability beyond the contractual obligations for payment of contributions.

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

Workers' Compensation

The District has established a partially self-funded workers' compensation plan by participating in the Texas Educational Insurance Association. The Association is a public entity risk pool currently operating as a common risk management and insurance program for member colleges and school districts. The main purpose of the Association is to partially self-insure certain workers compensation risks up to an agreed upon retention limit. The plan for worker's compensation benefits is authorized by Section 504.011 of the Labor Code. Claims are paid by a third party administrator acting on behalf of the District under the terms of a contractual agreement. Administrative fees are included within the provisions of that agreement. The liability of the workers' compensation self-insurance plan includes \$6,364 incurred but not reported claims. Costs are allocated to other funds and the retained earnings are fully reserved for self-funded insurance. Estimates of claims payable and of claims incurred, but not reported at August 31, 2016, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the fund as they become due.

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

Workers' Compensation (continued)

Changes in the balances of claim liabilities during the past year are as follows:

	Year Ended 08/31/2016	Year Ended 08/31/2015
Unpaid claims, beginning of year	\$ 20,632	\$ 29,625
Incurred claims	(1,197)	(1,221)
Claim payments	(3,228)	(7,772)
Unpaid claims, end of fiscal year	<u>\$ 16,207</u>	<u>\$ 20,632</u>

Unemployment Compensation

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

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

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

G. Pension Plan

1. Plan Description

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

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

2. Pension Plan Fiduciary Net Position

Detailed information about the TRS' fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at [www.trs.state.tx.us/about/documents/cafr.pdf#CAFR](http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR); by writing to TRS at 1000 Red River Street, Austin, TX 78701-2698; or by calling (512) 542-6592.

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

G. Pension Plan (continued)

3. Benefits Provided

TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, the three highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes, including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature, as noted in the plan description in (1.) above.

4. Contributions

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

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

	<b><u>Contribution Rates</u></b>	
	<u>2015</u>	<u>2016</u>
Member	6.7%	7.2%
Non-Employer Contributing Entity (NECE - State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2015 Employer Contributions	\$ 68,098	
District's 2015 Member Contributions	\$ 189,698	
NECE 2015 On-Behalf Contributions to District	\$ 163,638	

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).

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

4. Contributions (continued)

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

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

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

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

5. Actuarial Assumptions

The total pension liability in the August 31, 2015 actuarial evaluation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8%
Long-term expected Investment Rate of Return	8%
Inflation	2.5%
Salary Increases including inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes during the year	None
Ad hoc post-employment benefit changes	None

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

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

6. Discount Rate

The discount rate used to measure the total pension liability was 8%. There was no change in the discount rate since the previous 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:

<b>Teacher Retirement System of Texas</b>			
<b>Asset Allocation and Long-Term Expected Real Rate of Return</b>			
<b>As of August 31, 2015</b>			
	<b>Target Allocation</b>	<b>Long-term Expected Geometric Real Rate of Return</b>	<b>Expected Contribution to Long-term Portfolio Returns *</b>
<b>Global Equity</b>			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
<b>Stable Value</b>			
U.S. Treasuries	11%	0.7%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
<b>Real Return</b>			
Global Inflat. Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy & Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
<b>Risk Parity</b>			
Risk Parity	5%	6.7%	0.3%
Inflation Expectation			2.2%
Alpha			1.0%
<b>Total</b>	<b>100%</b>		<b>8.7%</b>

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

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

7. Discount Rate Sensitivity Analysis

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

	1% Decrease in Discount Rate 7%	Discount Rate 8%	1% Increase in Discount Rate 9%
District's proportionate share of the net pension liability	\$ 1,273,736	\$ 812,949	\$ 429,140

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

At August 31, 2016, the District reported a liability of \$812,949 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 812,949
State's proportionate share of the net pension liability associated with the District	<u>1,952,916</u>
Total	<u>\$ 2,765,865</u>

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

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.0022998%. which was an increase (decrease) of 0.0011335% from its proportion measured as of August 31, 2014.

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

*Economic Assumptions*

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

## SANTO INDEPENDENT SCHOOL DISTRICT

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

#### *Mortality Assumptions*

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

#### *Other Demographic Assumptions*

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

#### *Actuarial Methods and Policies*

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

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

For the year ended August 31, 2016, the District recognized pension expense of \$278,259 and revenue of \$278,259 for support provided by the State.

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 4,007	\$ 31,242
Changes in actuarial assumptions	16,841	29,002
Difference between projected and actual investment earnings	200,211	71,413
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	259,020	234
District contributions paid to TRS subsequent to the measurement date	71,924	--
Total	\$ 552,003	\$ 131,891

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
2017	\$ 136,024
2018	\$ 64,100
2019	\$ 64,102
2020	\$ 87,904
2021	\$ 37,602
Thereafter	\$ 30,380

H. Retiree Health Care Plans

1. TRS-Care

a. Plan Description

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



## SANTO INDEPENDENT SCHOOL DISTRICT

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

#### 1. TRS-Care (continued)

##### b. Funding Policy

Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. The State of Texas contribution rate was 1% for fiscal years 2016, 2015 and 2014. The active public school employee contributions rates were 0.65% of public school payroll, with school districts contributing a percentage of payroll set at 0.55% for fiscal years 2016, 2015 and 2014. For the years ended August 31, 2016, 2015, and 2014, the State's contributions to TRS-Care were \$28,307, \$28,313, and \$27,546, respectively, the active member contributions were \$18,399, \$18,404, and \$17,905, respectively, and the District's contributions were \$15,569, \$15,572, and \$15,150, respectively, which equaled the required contributions each year.

#### 2. Medicare Part D Subsidies

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. For the fiscal years ended August 31, 2016, 2015, and 2014, the subsidy payments received by TRS-Care on behalf of the District were \$8,325, \$8,551, and \$7,474, respectively.

#### I. Employee Health Care Coverage

During the year ended August 31, 2016, employees of the District were covered by a health insurance plan (the Plan). The District paid premiums of \$250 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a third party administrator, acting on behalf of the licensed insurer. The Plan was authorized by Section 21.922, Texas Education Code and was documented by contractual agreement.

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

Latest financial statements for the company are available for their year end and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

#### J. Commitments and Contingencies

##### 1. Contingencies

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

##### 2. Litigation

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

## **SANTO INDEPENDENT SCHOOL DISTRICT**

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

#### K. Shared Services Arrangements

##### Shared Services Arrangement - Membership

The District participates in a shared services arrangement ("SSA") for special education with the following school districts:

##### Member Districts

Mineral Wells ISD

Gordon ISD

Graford ISD

Palo Pinto ISD

Strawn ISD

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

### *Required Supplementary Information*

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

**SANTO INDEPENDENT SCHOOL DISTRICT**

GENERAL FUND  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT G-1

Page 1 of 2

Data Control Codes	1		2		3		Variance with Final Budget Positive (Negative)
	Budgeted Amounts				Actual		
	Original	Final					
<b>REVENUES:</b>							
5700	Local and Intermediate Sources	\$ 3,192,782	\$ 3,192,782	\$ 3,419,952	\$ 227,170		
5800	State Program Revenues	1,701,304	1,701,304	1,600,147	(101,157)		
5900	Federal Program Revenues	49,098	49,098	--	(49,098)		
5020	Total Revenues	<u>4,943,184</u>	<u>4,943,184</u>	<u>5,020,099</u>	<u>76,915</u>		
<b>EXPENDITURES:</b>							
Current:							
Instruction & Instructional Related Services:							
0011	Instruction	2,328,215	2,297,040	2,272,050	24,990		
0012	Instructional Resources and Media Services	48,900	47,100	45,353	1,747		
0013	Curriculum and Staff Development	4,700	3,700	2,269	1,431		
	Total Instruction & Instr. Related Services	<u>2,381,815</u>	<u>2,347,840</u>	<u>2,319,672</u>	<u>28,168</u>		
Instructional and School Leadership:							
0023	School Leadership	354,455	359,980	351,606	8,374		
	Total Instructional & School Leadership	<u>354,455</u>	<u>359,980</u>	<u>351,606</u>	<u>8,374</u>		
Support Services - Student (Pupil):							
0031	Guidance, Counseling and Evaluation Services	75,530	78,030	74,086	3,944		
0033	Health Services	46,795	46,795	41,814	4,981		
0034	Student (Pupil) Transportation	302,210	299,210	229,551	69,659		
0036	Cocurricular/Extracurricular Activities	303,073	317,098	306,560	10,538		
	Total Support Services - Student (Pupil)	<u>727,608</u>	<u>741,133</u>	<u>652,011</u>	<u>89,122</u>		
Administrative Support Services:							
0041	General Administration	502,720	492,745	457,019	35,726		
	Total Administrative Support Services	<u>502,720</u>	<u>492,745</u>	<u>457,019</u>	<u>35,726</u>		
Support Services - Nonstudent Based:							
0051	Plant Maintenance and Operations	659,150	705,950	666,349	39,601		
0053	Data Processing Services	151,090	151,090	134,582	16,508		
	Total Support Services - Nonstudent Based	<u>810,240</u>	<u>857,040</u>	<u>800,931</u>	<u>56,109</u>		
Ancillary Services:							
0061	Community Services	1,500	1,500	1,337	163		
	Total Ancillary Services	<u>1,500</u>	<u>1,500</u>	<u>1,337</u>	<u>163</u>		
Debt Service:							
0071	Principal on Long-Term Debt	123,500	110,300	110,253	47		
0072	Interest on Long-Term Debt	--	13,200	13,155	45		
	Total Debt Service	<u>123,500</u>	<u>123,500</u>	<u>123,408</u>	<u>92</u>		
Capital Outlay:							
0081	Capital Outlay	30,000	30,000	9,950	20,050		
	Total Capital Outlay	<u>30,000</u>	<u>30,000</u>	<u>9,950</u>	<u>20,050</u>		
Intergovernmental Charges:							
0093	Payments to Fiscal Agent/Member Dist.-SSA	100,000	82,000	81,982	18		
0095	Payments to Juvenile Justice Alternative						
0095	Education Programs	5,000	1,100	1,050	50		
	Total Intergovernmental Charges	<u>105,000</u>	<u>83,100</u>	<u>83,032</u>	<u>68</u>		
6030	Total Expenditures	<u>5,036,838</u>	<u>5,036,838</u>	<u>4,798,966</u>	<u>237,872</u>		

**SANTO INDEPENDENT SCHOOL DISTRICT**

GENERAL FUND  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	1	2	3	Variance with Final Budget Positive (Negative)
	Budgeted Amounts		Actual	
	Original	Final		
1100 Excess (Deficiency) of Revenues Over (Under)				
1100 Expenditures	<u>(93,654)</u>	<u>(93,654)</u>	<u>221,133</u>	<u>314,787</u>
Other Financing Sources (Uses):				
7912 Sale of Real or Personal Property	--	--	4,323	4,323
8911 Transfers Out	<u>(22,000)</u>	<u>(22,000)</u>	<u>--</u>	<u>22,000</u>
7080 Total Other Financing Sources and (Uses)	<u>(22,000)</u>	<u>(22,000)</u>	<u>4,323</u>	<u>26,323</u>
1200 Net Change in Fund Balance	<u>(115,654)</u>	<u>(115,654)</u>	<u>225,456</u>	<u>341,110</u>
0100 Fund Balance - Beginning	<u>1,614,530</u>	<u>1,614,530</u>	<u>1,614,530</u>	<u>--</u>
3000 Fund Balance - Ending	<u>\$ 1,498,876</u>	<u>\$ 1,498,876</u>	<u>\$ 1,839,986</u>	<u>\$ 341,110</u>

**SANTO INDEPENDENT SCHOOL DISTRICT**

SCHEDULE OF THE DISTRICT'S PROPORTIONATE  
 SHARE OF THE NET PENSION LIABILITY  
 TEACHER RETIREMENT SYSTEM OF TEXAS  
 LAST TEN FISCAL YEARS \*

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
District's proportion of the net pension liability (asset)	0.0022998%	0.0011663%	--	--	--	--	--	--	--	--
District's proportionate share of the net pension liability (asset)	\$ 812,949	\$ 311,534	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
State's proportionate share of the net pension liability (asset) associated with the District	1,952,916	1,682,839	--	--	--	--	--	--	--	--
<b>Total</b>	<b>\$ 2,765,865</b>	<b>\$ 1,994,373</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>	<b>\$ --</b>
District's covered-employee payroll	\$ 2,831,310	\$ 2,754,569	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	28.71%	11.31%	--	--	--	--	--	--	--	--
Plan fiduciary net position as a percentage of the total pension liability	78.43%	83.25%	--	--	--	--	--	--	--	--

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

**SANTO INDEPENDENT SCHOOL DISTRICT**

*SCHEDULE OF DISTRICT CONTRIBUTIONS  
TEACHER RETIREMENT SYSTEM OF TEXAS  
LAST TEN FISCAL YEARS \**

	Fiscal Year									
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Contractually required contribution	\$ 71,924	\$ 68,098	\$ 29,569	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Contributions in relation to the contractually required contribution	71,924	68,098	29,569	--	--	--	--	--	--	--
Contribution deficiency (excess)	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
District's covered-employee payroll	\$ 2,830,679	\$ 2,831,310	\$ 2,754,569	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
Contributions as a percentage of covered-employee payroll	2.54%	2.41%	1.07%	--	--	--	--	--	--	--

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

**SANTO INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO REQUIRED SUPPLEMENTARY INFORMATION*  
*FOR THE YEAR ENDED AUGUST 31, 2016*

Budget

The official budget was prepared for adoption for all Governmental Fund Types legally required to adopt a budget (General Funds, Food Service Funds, and Debt Service Funds). The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data reflected in the basic financial statements:

- a. Prior to August 20 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can be amended at function and fund level only 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. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

Each amendment 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.

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at August 31, and encumbrances outstanding at that time are to be either cancelled or appropriately provided for in the subsequent year's budget. There were no end-of-year outstanding encumbrances that were provided for in the subsequent year's budget.

Defined Benefit Pension Plan

*Changes of benefit terms*

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

*Changes of assumptions*

The changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period are listed in the Notes to the financial statements.



### *Other Supplementary Information*

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

**SANTO INDEPENDENT SCHOOL DISTRICT**

*SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FOR THE YEAR ENDED AUGUST 31, 2016*

Year Ended August 31	Tax Rates		3 Assessed/Appraised Value For School Tax Purposes
	1 Maintenance	2 Debt Service	
2007 and Prior Years	\$ Various	\$ Various	\$ Various
2008	1.04	.1553	218,768,170
2009	1.04	.1564	237,880,509
2010	1.04	.1435	260,483,078
2011	1.17	.1462	253,990,503
2012	1.17	.1422	247,638,909
2013	1.17	.1306	258,879,201
2014	1.17	.1306	261,114,417
2015	1.17	.1166	275,892,868
2016 (School Year Under Audit)	1.17	.1241	272,027,844

1000 Totals

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

Column 20, the current year's levy is the ending levy due provided by Erath County Tax Office and Palo Pinto County Tax Office.

Column 3, Assessed/Appraised Value for School Tax purposes is calculated based on current year total levy divided by current year total tax rate. This amount includes adjustments for frozen values.

10 Beginning Balance 9/1/15	20 Current Year's Total Levy	31 Maintenance Collections	32 Debt Service Collections	40 Entire Year's Adjustments	50 Ending Balance 8/31/16
\$ 27,287	\$ --	\$ 170	\$ 22	\$ (869)	\$ 26,226
5,007	--	--	--	--	5,007
7,771	--	1,904	286	(1)	5,580
14,549	--	3,862	533	--	10,154
18,436	--	5,099	638	(467)	12,232
18,801	--	4,269	519	(9)	14,004
28,707	--	5,317	593	(11)	22,786
32,550	--	10,918	1,219	(25)	20,388
81,215	--	35,796	3,568	(12,866)	28,985
--	3,520,228	3,111,704	329,971	--	78,553
<u>\$ 234,323</u>	<u>\$ 3,520,228</u>	<u>\$ 3,179,039</u>	<u>\$ 337,349</u>	<u>\$ (14,248)</u>	<u>\$ 223,915</u>
\$ --	\$ --	\$ --	\$ --	\$ --	\$ --

**SANTO INDEPENDENT SCHOOL DISTRICT**

*FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET (UNAUDITED)*

*GENERAL FUND*

*AS OF AUGUST 31, 2016*

Data Control Codes	Explanation	Amount
1	Total General Fund Fund Balance as of August 31, 2016 (Exhibit C-1 object 3000 for the General Fund only)	\$ <u>1,839,986</u>
2	Total General Fund Nonspendable Fund Balance (from Exhibit C-1 - total of object 341X-344X for the General Fund only)	<u>--</u>
3	Total General Fund Restricted Fund Balance (from Exhibit C-1 - total of object 345X-349X for the General Fund only)	<u>--</u>
4	Total General Fund Committed Fund Balance (from Exhibit C-1 - total of object 351X-354X for the General Fund only)	<u>--</u>
5	Total General Fund Assigned Fund Balance (from Exhibit C-1 - total of object 355X-359X for the General Fund only)	<u>500,000</u>
6	Estimated amount needed to cover fall cash flow deficits in the General Fund (net of borrowed funds and funds representing deferred revenues)	<u>399,914</u>
7	Estimate of two months' average cash disbursements during the fiscal year	<u>799,828</u>
8	Estimate of delayed payments from state sources (58XX)	<u>550</u>
9	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount	<u>--</u>
10	Estimate of delayed payments from federal sources (59XX)	<u>--</u>
11	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	<u>--</u>
12	General Fund Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9+10+11)	<u>1,700,292</u>
13	Excess (Deficit) Unassigned General Fund Fund Balance (1-12)	<u>\$ <u>139,694</u></u>

The District plans to use the excess Unassigned General Fund Fund Balance for various projects including a transportation storage facility, construction of a greenhouse and improvements to student transportation.

**SANTO INDEPENDENT SCHOOL DISTRICT**  
**NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED AUGUST 31, 2016**

**EXHIBIT J-3**

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
<b>REVENUES:</b>			
5700 <i>Local and Intermediate Sources</i>	\$ 133,008	\$ 128,469	\$ (4,539)
5800 <i>State Program Revenues</i>	8,000	7,110	(890)
5900 <i>Federal Program Revenues</i>	<u>153,266</u>	<u>162,483</u>	<u>9,217</u>
5020 Total Revenues	<u>294,274</u>	<u>298,062</u>	<u>3,788</u>
<b>EXPENDITURES:</b>			
Current:			
Support Services - Student (Pupil):			
0035 <i>Food Services</i>	<u>311,474</u>	<u>284,539</u>	<u>26,935</u>
Total Support Services - Student (Pupil)	<u>311,474</u>	<u>284,539</u>	<u>26,935</u>
Support Services - Nonstudent Based:			
0051 <i>Plant Maintenance and Operations</i>	<u>4,000</u>	<u>766</u>	<u>3,234</u>
Total Support Services - Nonstudent Based	<u>4,000</u>	<u>766</u>	<u>3,234</u>
6030 Total Expenditures	<u>315,474</u>	<u>285,305</u>	<u>30,169</u>
1100 Excess (Deficiency) of Revenues Over (Under)			
1100 Expenditures	<u>(21,200)</u>	<u>12,757</u>	<u>33,957</u>
Other Financing Sources (Uses):			
7915 <i>Transfers In</i>	<u>22,000</u>	<u>--</u>	<u>(22,000)</u>
7080 Total Other Financing Sources and (Uses)	<u>22,000</u>	<u>--</u>	<u>(22,000)</u>
1200 Net Change in Fund Balance	800	12,757	11,957
0100 Fund Balance - Beginning	4,654	4,654	--
3000 Fund Balance - Ending	<u>\$ 5,454</u>	<u>\$ 17,411</u>	<u>\$ 11,957</u>

**SANTO INDEPENDENT SCHOOL DISTRICT**

**EXHIBIT J-4**

DEBT SERVICE FUND  
 BUDGETARY COMPARISON SCHEDULE  
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	1	2	3
	Budget	Actual	Variance Positive (Negative)
<b>REVENUES:</b>			
5700 <i>Local and Intermediate Sources</i>	\$ 342,200	\$ 344,559	\$ 2,359
5800 <i>State Program Revenues</i>	--	10,057	10,057
5020 <i>Total Revenues</i>	<u>342,200</u>	<u>354,616</u>	<u>12,416</u>
<b>EXPENDITURES:</b>			
Debt Service:			
0071 <i>Principal on Long-Term Debt</i>	305,000	305,000	--
0072 <i>Interest on Long-Term Debt</i>	36,500	36,113	387
0073 <i>Bond Issuance Costs and Fees</i>	500	431	69
<i>Total Debt Service</i>	<u>342,000</u>	<u>341,544</u>	<u>456</u>
6030 <i>Total Expenditures</i>	<u>342,000</u>	<u>341,544</u>	<u>456</u>
1100 <i>Excess (Deficiency) of Revenues Over (Under)</i>			
1100 <i>Expenditures</i>	<u>200</u>	<u>13,072</u>	<u>12,872</u>
1200 <i>Net Change in Fund Balance</i>	200	13,072	12,872
0100 <i>Fund Balance - Beginning</i>	207,564	207,564	--
3000 <i>Fund Balance - Ending</i>	<u>\$ 207,764</u>	<u>\$ 220,636</u>	<u>\$ 12,872</u>



SNOW GARRETT WILLIAMS  
CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Trustees  
Santo Independent School District  
P.O. Box 67  
Santo, Texas 76472

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 Santo Independent School District, as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise Santo Independent School District's basic financial statements, and have issued our report thereon dated November 11, 2016.

**Internal Control Over Financial Reporting**

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

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

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

## Compliance and Other Matters

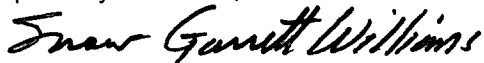
As part of obtaining reasonable assurance about whether the Santo Independent School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could 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*.

We noted certain matters that we reported to management of Santo Independent School District in a separate letter date November 11, 2016.

## Purpose of this Report

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

Respectfully submitted,



Snow Garrett Williams  
November 11, 2016



**SANTO INDEPENDENT SCHOOL DISTRICT**

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

<u>Data Control Codes</u>		<u>Responses</u>
SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts and laws related to local, state or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other governmental agencies?	Yes
SF8	Did the school district <u>not</u> receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	What was the total accumulated accretion on capital appreciation bonds (CABs) included in government-wide financial statements at fiscal year-end?	\$ --
SF11	Net Pension Assets (object 1920) at fiscal year-end.	\$ --
SF12	Net Pension Liabilities (object 2540) at fiscal year-end.	\$ 812,949
SF13	Pension Expense (object 6147) at fiscal year-end.	\$ 79,169

