

SONORA INDEPENDENT SCHOOL DISTRICT
 Annual Financial Report
 Year Ended August 31, 2016

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CERTIFICATE OF THE BOARD

SONORA INDEPENDENT SCHOOL DISTRICT
Name of School District

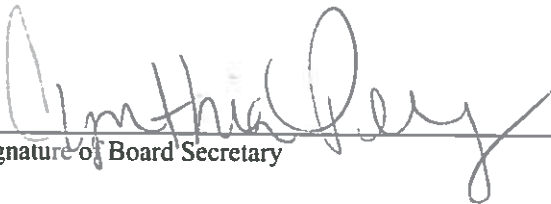
SUTTON
County

218-901
County -
District
Number

We, the undersigned, certify that the attached annual financial report of the above-named School District was reviewed and

X approved ___ disapproved for the year ended August 31, 2016, at a meeting of the Board of Trustees of such School District
(Check One)

on the 12th day of December, 2016.



Signature of Board Secretary



Signature of Board President

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

FINANCIAL SECTION



A Limited Liability Partnership

Michael E. Oliphant, CPA
Calvin Featherston, CPA
Wayne Barr, CPA
Cathryn A. Pitcock, CPA

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Members of
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Texas Society of CPAs

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Sonora Independent School District
807 South Concho
Sonora, TX 76950-3999

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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 the Sonora Independent School District as of August 31, 2016, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and net pension liability and contributions information for the Teacher Retirement System of Texas on pages 4 through 8, 36, and 37 through 38, respectively, 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 Sonora Independent School District's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2016, on our consideration of the Sonora Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Sonora Independent School District's internal control over financial reporting and compliance.

Eckert & Company, LLP

November 3, 2016



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Ross Aschenbeck, Superintendent

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Sonora Independent School District's financial performance provides an overview of the District's financial activities for the year ended August 31, 2016. It should be read in conjunction with the District's basic financial statements and independent auditor's report.

Financial Highlights

The District's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the end of the current year by \$28,087,631 (net position). Of this amount, \$11,187,486 (unrestricted) may be used to meet the District's ongoing obligations.

The District's total net position decreased by \$1,071,895 or 4%. This amount consists of a \$1,217,211 decrease attributable to current year operations and a \$145,316 increase attributable to prior period adjustments described in Note IV., I. to the financial statements. The District's statement of activities shows total revenues of \$12,689,094 and total expenses of \$13,906,305.

The total fund balance of the General Fund is \$12,092,133 which is a decrease of \$326,355 or 3% compared to the prior year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements consist of government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

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/deferred outflows of resources and liabilities/deferred inflows of resources, 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Overview of the Financial Statements - Continued

The statement of activities presents information showing how the District's net position changed during the current year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future years.

The governmental activities of the District include all activities related to public elementary and secondary education within the jurisdiction of the District

The District has no component units.

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 legal requirements. 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 current year.

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 District'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.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund which is considered to be a major fund. Data from other governmental funds are combined into a single, aggregated presentation.

The District adopts an annual appropriated budget for its General Fund, Food Service Special Revenue Fund, and Debt Service Fund. A budgetary comparison statement has been provided for each of these funds to demonstrate compliance with the budget for each fund.

Fiduciary Funds - Fiduciary funds are used to account for resources held for the benefit of parties outside the District. 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.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

MANAGEMENT’S DISCUSSION AND ANALYSIS - Continued

Government-Wide Financial Analysis

Net Position - A summary of the District’s net position is presented below:

NET POSITION

	Governmental Activities	
	August 31,	
	2016	2015
Current and Other Assets	\$ 12,889,667	\$ 13,199,143
Capital Assets	17,045,043	17,838,596
Total Assets	\$ 29,934,710	\$ 31,037,739
Deferred Outflows of Resources	\$ 1,219,715	\$ 264,500
Long-Term Liabilities Outstanding	\$ 2,486,176	\$ 1,463,997
Other Liabilities	413,868	386,886
Total Liabilities	\$ 2,900,044	\$ 1,850,883
Deferred Inflows of Resources	\$ 166,750	\$ 291,830
Net Position		
Net Investment in Capital Assets	\$ 16,800,043	\$ 17,350,767
Restricted	100,102	94,594
Unrestricted	11,187,486	11,714,165
Total Net Position	\$ 28,087,631	\$ 29,159,526

A large portion of the District's net position (\$16,800,043) reflects the District's investment in capital assets, less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide public elementary and secondary education within the jurisdiction of the District; 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 portion of the District’s net position (\$100,102) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$11,187,486) may be used to meet the District’s ongoing obligations.

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Government-Wide Financial Analysis - Continued

Governmental Activities - Governmental activities decreased the District's net position by \$1,217,211 and \$545,215 for the fiscal years ended August 31, 2016 and 2015, respectively. Key elements of these decreases are as follows:

CHANGES IN NET POSITION

	Governmental Activities	
	Year Ended August 31,	
	2016	2015
Revenues		
Program Revenues		
Charges for Services	\$ 576,979	\$ 612,011
Operating Grants and Contributions	1,592,443	1,287,000
General Revenues		
Maintenance and Operations Taxes	6,023,715	6,373,496
Debt Service Taxes	268,601	306,519
State Aid - Formula Grants	4,022,804	4,240,736
Investment Earnings	53,217	19,456
Other	151,335	95,522
Total Revenues	\$ 12,689,094	\$ 12,934,740
Expenses		
Instruction and Instructional-Related Services	\$ 7,720,283	\$ 7,507,813
Instructional and School Leadership	898,053	814,886
Support Services - Student (Pupil)	2,609,431	2,456,931
Administrative Support Services	452,869	469,070
Support Services - Nonstudent Based	2,001,495	1,996,981
Debt Service	7,972	12,033
Intergovernmental Charges	216,202	222,241
Total Expenses	\$ 13,906,305	\$ 13,479,955
Change in Net Position	\$ (1,217,211)	\$ (545,215)
Net Position - Beginning	29,159,526	30,768,059
Prior Period Adjustments	145,316	(1,063,318)
Net Position - Ending	\$ 28,087,631	\$ 29,159,526

MANAGEMENT'S DISCUSSION AND ANALYSIS - Continued

Financial Analysis of the District's Funds

The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

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. The unassigned fund balance may serve as a useful measure of the District's net resources available for spending at the end of the current year.

The District's governmental funds reported combined ending fund balances of \$12,288,973, a decrease of \$359,688 or 3% in comparison with the prior year. These fund balances are reported in various governmental funds as follows:

General Fund \$12,092,133. Of this balance \$6,000,000 is assigned for capital expenditures for equipment.

Special Revenue Funds \$117,835. Of this balance \$12,956 is restricted for use in the Food Service Fund, and \$104,879 is committed for use by the Campus Activity Funds of the District.

Debt Service Fund \$79,005. This balance is restricted for payment of long-term debt principal and interest.

General Fund Budget

The original budget for the General Fund was \$11,149,674, and the final amended budget was \$11,545,852 which represents a \$396,178 increase in appropriations. Variances between the original budget and the final amended budget are reflected in Exhibit E-1 in the required supplementary information section of the audit report.

The District has adopted a budget for the General Fund in the amount of \$11,011,231 for the fiscal year 2017, which is a decrease of \$534,621 from the fiscal year 2016.

Capital Assets and Debt

Capital Assets - Financial statement footnote III., D. discloses the District's capital asset activity for the year ended August 31, 2016.

Long-Term Debt - Financial statement footnote III., H. discloses the District's debt activity for the year ended August 31, 2016.

Future Economic Factors

In September 2016, the Board of Trustees approved a change in fiscal year end from August 31 to June 30 for the 2016-17 fiscal year. The year will begin on September 1, 2016, and will end ten months later on June 30, 2017. This fiscal year change will align the fiscal year with the school year. This fiscal year change amendment request was approved by the TEA on November 2, 2016.

Requests for Information

The financial report is designed to provide a general overview of the District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to: Ross Aschenbeck, Superintendent, Sonora Independent School District, 807 South Concho, Sonora, TX 76950-3999.

Basic Financial Statements

SONORA INDEPEDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2016

EXHIBIT A-1

Data Control Codes	Primary Government Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 12,345,227
1220 Property Taxes - Delinquent	238,255
1230 Allowance for Uncollectible Taxes	(51,253)
1240 Due from Other Governments	357,438
Capital Assets:	
1510 Land	176,444
1520 Buildings, Net	15,743,467
1530 Furniture and Equipment, Net	1,104,730
1580 Construction in Progress	20,402
1000 Total Assets	29,934,710
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS	1,219,715
1700 Total Deferred Outflows of Resources	1,219,715
LIABILITIES	
2110 Accounts Payable	27,203
2140 Interest Payable	176
2160 Accrued Wages Payable	375,292
2200 Accrued Expenses	7,005
2300 Unearned Revenue	4,192
Noncurrent Liabilities	
2501 Due Within One Year	245,000
2540 Net Pension Liability (District's Share)	2,241,176
2000 Total Liabilities	2,900,044
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	166,750
2600 Total Deferred Inflows of Resources	166,750
NET POSITION	
3200 Net Investment in Capital Assets	16,800,043
3820 Restricted for Federal and State Programs	12,956
3850 Restricted for Debt Service	87,146
3900 Unrestricted	11,187,486
3000 Total Net Position	\$ 28,087,631

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

SONORA INDEPEDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 7,276,464	\$ 227,126	\$ 868,980	\$ (6,180,358)
12 Instructional Resources and Media Services	169,445	-	32,479	(136,966)
13 Curriculum and Instructional Staff Development	274,374	-	39,690	(234,684)
21 Instructional Leadership	138,830	-	10,859	(127,971)
23 School Leadership	759,223	-	63,881	(695,342)
31 Guidance, Counseling, and Evaluation Services	376,279	-	30,865	(345,414)
33 Health Services	77,143	-	6,286	(70,857)
34 Student (Pupil) Transportation	236,966	-	16,498	(220,468)
35 Food Services	624,863	142,210	385,890	(96,763)
36 Extracurricular Activities	1,294,180	113,871	40,462	(1,139,847)
41 General Administration	452,869	-	17,699	(435,170)
51 Facilities Maintenance and Operations	1,694,988	93,772	62,592	(1,538,624)
52 Security and Monitoring Services	23,773	-	-	(23,773)
53 Data Processing Services	282,734	-	16,261	(266,473)
72 Debt Service - Interest on Long-Term Debt	7,972	-	-	(7,972)
99 Other Intergovernmental Charges	216,202	-	-	(216,202)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 13,906,305	\$ 576,979	\$ 1,592,443	(11,736,883)
Data Control Codes	General Revenues:			
	Taxes:			
MT	Property Taxes, Levied for General Purposes			6,023,715
DT	Property Taxes, Levied for Debt Service			268,601
SF	State Aid - Formula Grants			4,022,804
IE	Investment Earnings			53,217
MI	Miscellaneous Local and Intermediate Revenue			151,335
TR	Total General Revenues			10,519,672
CN	Change in Net Position			(1,217,211)
NB	Net Position - Beginning			29,159,526
PA	Prior Period Adjustment			145,316
NE	Net Position--Ending			\$ 28,087,631

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

SONORA INDEPEDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2016

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 12,237,807	\$ 107,420	\$ 12,345,227
1220 Property Taxes - Delinquent	227,374	10,881	238,255
1230 Allowance for Uncollectible Taxes	(48,689)	(2,564)	(51,253)
1240 Due from Other Governments	225,849	131,589	357,438
1260 Due from Other Funds	8	-	8
1000 Total Assets	<u>\$ 12,642,349</u>	<u>\$ 247,326</u>	<u>\$ 12,889,675</u>
LIABILITIES			
2110 Accounts Payable	\$ 27,139	\$ 64	\$ 27,203
2160 Accrued Wages Payable	339,926	35,366	375,292
2170 Due to Other Funds	-	8	8
2200 Accrued Expenditures	4,466	2,539	7,005
2300 Unearned Revenue	-	4,192	4,192
2000 Total Liabilities	<u>371,531</u>	<u>42,169</u>	<u>413,700</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	178,685	8,317	187,002
2600 Total Deferred Inflows of Resources	<u>178,685</u>	<u>8,317</u>	<u>187,002</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	12,956	12,956
3480 Retirement of Long-Term Debt	-	79,005	79,005
Committed Fund Balance:			
3545 Other Committed Fund Balance	-	104,879	104,879
Assigned Fund Balance:			
3570 Capital Expenditures for Equipment	6,000,000	-	6,000,000
3600 Unassigned Fund Balance	6,092,133	-	6,092,133
3000 Total Fund Balances	<u>12,092,133</u>	<u>196,840</u>	<u>12,288,973</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 12,642,349</u>	<u>\$ 247,326</u>	<u>\$ 12,889,675</u>

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

SONORA INDEPEDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
AUGUST 31, 2016

Total Fund Balances - Governmental Funds	\$	12,288,973
1 Capital assets used in governmental activities are not financial resources and, therefore, are not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase (decrease) net position.		16,346,915
2 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including capital outlays and debt principal payments is to increase (decrease) net position.		632,477
3 Depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(1,161,030)
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68, a Deferred Resource Inflow related to TRS, and a Deferred Resource Outflow related to TRS. The net effect of these adjustments is to increase (decrease) net position.		(206,883)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		187,179
19 Net Position of Governmental Activities	\$	28,087,631

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

SONORA 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 Funds	Total Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 6,419,112	\$ 631,684	\$ 7,050,796
5800 State Program Revenues	4,501,840	73,047	4,574,887
5900 Federal Program Revenues	34,003	737,459	771,462
5020 Total Revenues	<u>10,954,955</u>	<u>1,442,190</u>	<u>12,397,145</u>
EXPENDITURES:			
Current:			
0011 Instruction	5,858,728	415,015	6,273,743
0012 Instructional Resources and Media Services	122,278	27,453	149,731
0013 Curriculum and Instructional Staff Development	211,494	24,084	235,578
0021 Instructional Leadership	117,782	-	117,782
0023 School Leadership	642,691	-	642,691
0031 Guidance, Counseling, and Evaluation Services	320,597	4,000	324,597
0033 Health Services	65,685	-	65,685
0034 Student (Pupil) Transportation	501,900	-	501,900
0035 Food Services	16,301	556,269	572,570
0036 Extracurricular Activities	992,335	230,907	1,223,242
0041 General Administration	405,270	-	405,270
0051 Facilities Maintenance and Operations	1,612,770	-	1,612,770
0052 Security and Monitoring Services	23,773	-	23,773
0053 Data Processing Services	263,465	-	263,465
Debt Service:			
0071 Principal on Long-Term Debt	-	265,000	265,000
0072 Interest on Long-Term Debt	-	8,150	8,150
Intergovernmental:			
0099 Other Intergovernmental Charges	216,202	-	216,202
6030 Total Expenditures	<u>11,371,271</u>	<u>1,530,878</u>	<u>12,902,149</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(416,316)</u>	<u>(88,688)</u>	<u>(505,004)</u>
OTHER FINANCING SOURCES (USES):			
7915 Transfers In	-	55,355	55,355
8911 Transfers Out (Use)	(55,355)	-	(55,355)
7080 Total Other Financing Sources (Uses)	<u>(55,355)</u>	<u>55,355</u>	<u>-</u>
1200 Net Change in Fund Balances	(471,671)	(33,333)	(505,004)
0100 Fund Balance - September 1 (Beginning)	12,418,488	230,173	12,648,661
1300 Increase (Decrease) in Fund Balance	145,316	-	145,316
3000 Fund Balance - August 31 (Ending)	<u>\$ 12,092,133</u>	<u>\$ 196,840</u>	<u>\$ 12,288,973</u>

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

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

Total Net Change in Fund Balances - Governmental Funds	\$	(505,004)
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing capital outlays and debt principal payments is to increase (decrease) net position.		632,477
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(1,161,030)
Current year changes due to GASB 68 include amortization of deferred resource inflows and outflows, accounting for the District's proportionate share of the current measurement period pension expense affecting the ending net pension liability, accounting for items in pension expense affecting the ending pension liability, accounting for contributions made before the measurement date but during the fiscal year, and accounting for the difference between on-behalf revenues and expenditures between the fund financial statements and the government-wide financial statements. The impact of all of these is to increase (decrease) net position.		(206,883)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to the accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, eliminating interfund transactions, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase (decrease) net position.		23,229
Change in Net Position of Governmental Activities	\$	(1,217,211)

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

SONORA INDEPEDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2016

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 93,139
Total Assets	<u>\$ 93,139</u>
LIABILITIES	
Other Liabilities - Current	\$ 1,350
Due to Student Groups	91,789
Total Liabilities	<u>\$ 93,139</u>

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

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
August 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Sonora Independent School District is a public educational agency operating under the applicable laws and regulations of the State of Texas. The District prepares its basic financial statements in conformity with accounting principles generally accepted in the United States of America applicable to state and local governments. Additionally, the District complies with the requirements of the Texas Education Agency's *Financial Accountability System Resource Guide* (the *Resource Guide*) and the requirements of contracts and grants of agencies from which it receives funds.

A. Reporting Entity

The District is governed by the Board of Trustees, a seven-member group, which is elected by the public and has governance responsibilities, including fiscal accountability, over all activities related to public elementary and secondary education within the jurisdiction of the Sonora Independent School District (the primary government). There are no component units included within the reporting entity.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities include programs supported primarily by taxes, State foundation funds, grants, and other intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges for services - payments from parties that purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment of the District and (2) grants and contributions - payments from organizations outside the District that are restricted to meeting the operational or capital requirements of a particular function or segment of the District. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

All interfund transactions between governmental funds are eliminated in the government-wide financial statements. Interfund activities between governmental funds and fiduciary funds remain as due to/due froms on the government-wide statement of net position.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other funds.

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities, and fund balances are included in the balance sheet. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, revenues received from the state, and interest associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Grant funds are considered to be earned to the extent of expenditures made under the provisions of the grant. Accordingly, when such funds are received they are recorded as unearned revenue until related and authorized expenditures have been made.

The government reports the following major governmental fund:

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

Additionally, the government reports the following fund type:

Agency Funds account for the activities of funds which are the property of student groups.

D. Interfund Receivables and Payables

Activity between individual funds may result in amounts owed between funds which are classified as Due To and From Other Funds. Other than amounts due to or from fiduciary funds these balances are eliminated in the statement of net position.

E. Receivables and Payables

Receivables are stated at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

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.

F. Capital Assets

Capital assets are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

F. Capital Assets - Continued

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

<u>Assets</u>	<u>Years</u>
Buildings and Improvements	10-40
Vehicles	5-10
Furniture and Equipment	5-10

G. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, the face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

H. Pensions

In accordance with accounting guidance prescribed by GASB Statement No. 68, the fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities, and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

I. Compensated Absences

The District pays auxiliary 12-month employees for their unused vacation leave upon termination of employment. The accumulated vacation leave cannot exceed 20 days.

A liability for these amounts is reported in governmental funds only if they are payable as a result of employee resignations and retirements.

J. Net Position on the Statement of Net Position

Net position on the statement of net position includes the following:

Net Investment in Capital Assets - This component of net position represents the difference between capital assets net of accumulated depreciation and the outstanding balance of debt, excluding any unspent debt proceeds, which is directly attributable to the acquisition, construction, or improvement of those assets.

Restricted for Federal and State Programs - This component of net position represents the balance of the Child Nutrition Program.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

J. Net Position on the Statement of Net Position - Continued

Restricted for Debt Service - This component of net position represents the difference between assets and liabilities of the Debt Service Fund that consists of assets with constraints placed on their use by creditors.

Unrestricted - This is the difference between assets/deferred outflows of resources and liabilities/deferred inflows of resources that is not reported as Net Investment in Capital Assets, Restricted for Federal and State Programs, or Restricted for Debt Service.

K. Fund Balances

In the fund financial statements, governmental funds report the following classifications of fund balance:

Restricted - Amounts that can be spent only for specific purposes because usage restraints have been imposed by external sources such as creditors (through a debt covenant), grantors, contributors, or laws or regulations of other governments.

Committed - Amounts that can be used only for specific purposes determined by a formal action of the Board of Trustees, the District's highest level of decision-making authority. Commitments may be modified or rescinded only through formal action by the Board of Trustees.

Assigned - Amounts that are intended for a specific purpose but do not meet the definition of restricted or committed. The intent can be expressed by the Board of Trustees or by a Board designee.

Unassigned - Amounts that have not been assigned to other funds or restricted, committed, or assigned to a specific purpose within the General Fund.

The details of the fund balances are included in the governmental funds balance sheet.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board of Trustees has provided otherwise in its commitment or assignment actions.

In the General Fund, the District strives to maintain a yearly fund balance in the general operating fund in which the total fund balance is five months of operating expenditures which includes unassigned fund balance of two months of operating expenditures.

L. Property Tax Revenues

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

The District recognizes as tax revenues those taxes that are measurable and available. Measurable means the amount can be determined, and available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The District considers property taxes as available if they are collected within the current period.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

L. Property Tax Revenues - Continued

Taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectibles are based upon historical experience. 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.

M. Interfund Transfers

Permanent relocations of resources between funds of the reporting entity are classified as interfund transfers. For purposes of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budget

Formal budgetary accounting is employed for all required governmental fund types and is presented on the modified accrual basis of accounting consistent with generally accepted accounting principles.

The official school budget is prepared for adoption for required governmental fund types prior to August 20 of the preceding fiscal year for the subsequent fiscal year beginning September 1. The budget is formally adopted by the Board of Trustees at a public meeting held at least ten days after public notice has been given.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the General Fund, the Debt Service Fund, and the Food Service Special Revenue Fund. The remaining Special Revenue Funds adopt project-length budgets which do not correspond to the District's fiscal year. Each annual budget is presented on the modified accrual basis of accounting which is consistent with generally accepted accounting principles. The budget was amended throughout the year by the Board of Trustees. Such amendments are before the fact and are reflected in the official minutes of the Board.

B. Excess Expenditures Over Appropriations

Expenditures exceeded appropriations in one function as shown on Exhibit E-1.

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS

A. Deposits and Investments

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

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

A. Deposits and Investments - Continued

accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy.

Custodial Credit Risk - Deposits: In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits and investments in certificates of deposit may not be returned to it. The District's policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits and investments, other than the following: The State of Texas requires that a financial institution secure deposits and investments made by state and local governments by pledging securities in excess of the highest cash balance of the government. The District is not exposed to custodial credit risk for its deposits since they are covered by depository insurance and pledged securities held by a third party in the District's name.

Concentration of Credit Risk: The investment policy of the District contains no limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of the total entity investments represent a concentration risk. The District is not exposed to this risk as described in the preceding paragraph

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 August 31, 2016, the District was not significantly exposed to credit risk.

Interest Rate Risk: Not applicable

Foreign Currency Risk: Not applicable

At August 31, 2016, the District's investments with respective maturities and credit ratings consisted of the following:

	<u>Fair Value</u>	<u>Percent</u>	<u>Weighted Average Maturity</u>	<u>Credit Rating</u>
<u>Public Funds Investment Pools</u>				
TexPool	\$ 4,448,275	49%	42 Days	AAAm
TexPool <i>Prime</i>	<u>4,591,018</u>	<u>51%</u>	37 Days	AAAm
Total Public Funds Investment Pools	<u>\$ 9,039,293</u>	<u>100%</u>		

Public Funds Investment Pools

Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the Pool and other persons who

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

A. Deposits and Investments - Continued

do not have a business relationship with the Pool and are qualified to advise the Pool; 2) maintain a continuous rating of no lower than AAA or AAAM or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investment in Pools is reported at an amount determined by the fair value per share of the Pool's underlying portfolio, unless the Pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940.

B. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from other governments are summarized as follows:

	State Entitlements	Federal Grants	Other	Total
General Fund	\$ 225,849	\$ 0	\$ 0	\$ 225,849
Special Revenue Funds	0	131,589	0	131,589
Totals	\$ 225,849	\$ 131,589	\$ 0	\$ 357,438

C. Interfund Balances and Transfers

1. The following is a summary of amounts due from and due to other funds:

	Due From	Due To	Purpose
General Fund			
Nonmajor Governmental Funds	\$ 8	\$ 0	Current Operations
Nonmajor Governmental Funds			
General Fund	0	8	Current Operations
Totals	\$ 8	\$ 8	

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

2. Interfund transfers consist of the following:

Transfers From	Transfers To	Amount	Purpose
General Fund	Nonmajor Governmental Funds	\$ 55,355	Subsidize Food Services

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

D. Capital Assets

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

<u>Governmental Activities</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Reclassifications</u>	<u>Ending Balance</u>
Capital Assets					
Land	\$ 176,444	\$ 0	\$ 0	\$ 0	\$ 176,444
Buildings and Improvements	35,675,152	0	0	0	35,675,152
Furniture and Equipment	3,591,606	367,477	0	0	3,959,083
Construction in Progress	20,402	0	0	0	20,402
Total Capital Assets	\$ 39,463,604	\$ 367,477	\$ 0	\$ 0	\$ 39,831,081
Less Accumulated Depreciation					
Buildings and Improvements	\$ (19,028,322)	\$ (903,363)	\$ 0	\$ 0	\$ (19,931,685)
Furniture and Equipment	(2,596,686)	(257,667)	0	0	(2,854,353)
Total Accumulated Depreciation	\$ (21,625,008)	\$ (1,161,030)	\$ 0	\$ 0	\$ (22,786,038)
Governmental Activities Capital Assets, Net	\$ 17,838,596	\$ (793,553)	\$ 0	\$ 0	\$ 17,045,043

Depreciation expense was charged to governmental activities functions as follows:

Instruction	\$ 719,414
Instructional Resources and Media Services	13,773
Curriculum and Instructional Staff Development	27,300
Instructional Leadership	14,811
School Leadership	81,181
Guidance, Counseling, and Evaluation Services	36,629
Health Services	8,165
Student (Pupil) Transportation	21,898
Food Services	34,040
Extracurricular Activities	64,080
General Administration	35,481
Facilities Maintenance and Operations	84,235
Data Processing Services	20,023
Total	\$ 1,161,030

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

E. Deferred Outflows and Inflows of Resources

The financial statements report separate sections for deferred outflows and inflows of resources. Deferred outflows represent an acquisition of net position that applies to a future period and so will not be recognized as an outflow of resources (expense/expenditure) until that time. Deferred inflows represent an acquisition of fund balance that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The District has the following items that qualify for reporting in these categories:

Deferred Outflows (Statement of Net Position)

District's proportionate share of Teacher Retirement System of Texas (TRS) deferred outflows as detailed in financial statement footnote IV., A.

Deferred Inflows (Statement of Net Position)

District's proportionate share of Teacher Retirement System of Texas (TRS) deferred inflows as detailed in financial statement footnote IV., A.

Deferred Inflows (Balance Sheet - Governmental Funds)

Unavailable revenue - property taxes.

F. Unearned Revenue

Unearned revenue at year end consisted of the following:

	Special Revenue Funds
State Entitlements	\$ 4,192

G. Commitments Under Noncapitalized Leases

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

Year Ending August 31,	
2017	\$ 67,094
2018	66,953
2019	22,240
Total Minimum Rentals	\$ 156,287

Rental expenditures during the year ended August 31, 2016, were \$68,749.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

H. Long-Term Debt

The following is a summary of changes in long-term debt for the year ended August 31, 2016:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
General Obligation Bonds	<u>\$ 510,000</u>	<u>\$ 0</u>	<u>\$ 265,000</u>	<u>\$ 245,000</u>	<u>\$ 245,000</u>

The District's outstanding bond issue is as follows:

Sonora Independent School District Unlimited Tax School Building Bonds, Series 2013.
Issued for the purpose of acquiring, constructing, renovating and equipping school facilities
and acquiring school buses and transportation equipment in the original amount of \$1,425,000.
Due in variable installments through August 2017, with interest rates of 1.25% to 1.65%. \$ 245,000

The annual debt service requirements are as follows:

<u>Year Ending August 31,</u>	<u>General Obligation Bonds</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2017	<u>\$ 245,000</u>	<u>\$ 4,043</u>	<u>\$ 249,043</u>

I. Outstanding Encumbrances

There were no outstanding encumbrances that were provided for in the subsequent year's budget.

J. Revenues from Local and Intermediate Sources

Local and intermediate source revenues consists of the following:

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Property Taxes	\$ 6,054,590	\$ 0	\$ 270,516	\$ 0	\$ 6,325,106
Tuition and Fees	31,859	0	0	0	31,859
Other Local Sources	295,627	2,791	1,010	100	299,528
Cocurricular, Enterprising Services, or Activities	<u>37,036</u>	<u>357,267</u>	<u>0</u>	<u>0</u>	<u>394,303</u>
Totals	<u>\$ 6,419,112</u>	<u>\$ 360,058</u>	<u>\$ 271,526</u>	<u>\$ 100</u>	<u>\$ 7,050,796</u>

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

III. DETAIL NOTES ON ALL ACTIVITIES AND FUNDS - Continued

K. General Fund Federal Source Revenues

<u>Program or Source</u>	<u>CFDA Number</u>	<u>Amount</u>
E-Rate School and Library Program	--	<u>\$ 34,003</u>

IV. OTHER INFORMATION

A. Defined Benefit Pension Plan

Plan Description - The Sonora Independent School 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). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

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

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

Benefits Provided - TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3% (multiplier) times the average of the 5 highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered; for those the 3 highest annual salaries are used. The normal service retirement is at age 65 with 5 years of credited service or when the sum of the member's age and years of credited service equals 80 or more years. Early retirement is at age 55 with 5 years of service credit or earlier than 55 with 30 years of service credit. There are additional provisions for early retirement if the sum of the member's age and years of service

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

credit total at least 80, but the member is less than age 60 or 62 depending on date of employment, or if the member was grandfathered in under a previous rule. There are no automatic post-employment benefit changes, including automatic COLAs. Ad hoc post-employment benefit changes, including ad hoc COLAs, can be granted by the Texas Legislature as noted in the plan description above.

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

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

Contribution Rates

	<u>2015</u>	<u>2016</u>
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
District's 2016 Employer Contributions		\$ 189,889
District's 2016 Member Contributions		506,818
District's 2015 NECE On-Behalf Contributions		385,292

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

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources or a privately sponsored source.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

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

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

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

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.0%
Long-Term Expected Investment Rate of Return	8.0%
Inflation	2.5%
Salary Increases Including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

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

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

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the System's target asset allocation as of August 31, 2015, are summarized below:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Geometric Basis</u>	<u>Long-Term Expected Portfolio Real Rate of Return*</u>
Global Equity			
U.S.	18.0%	4.6%	1.0%
Non-U.S. Developed	13.0%	5.1%	0.8%
Emerging Markets	9.0%	5.9%	0.7%
Directional Hedge Funds	4.0%	3.2%	0.1%
Private Equity	13.0%	7.0%	1.1%
Stable Value			
U.S. Treasuries	11.0%	0.7%	0.1%
Absolute Return	0.0%	1.8%	0.0%
Hedge Funds (Stable Value)	4.0%	3.0%	0.1%
Cash	1.0%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3.0%	0.9%	0.0%
Real Assets	16.0%	5.1%	1.1%
Energy and Natural Resources	3.0%	6.6%	0.2%
Commodities	0.0%	1.2%	0.0%
Risk Parity			
Risk Parity	5.0%	6.7%	0.3%
Inflation Expectations			2.2%
Alpha			<u>1.0%</u>
Totals	<u>100.0%</u>		<u>8.7%</u>

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

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

	<u>1% Decrease in Discount Rate (7%)</u>	<u>Discount Rate (8%)</u>	<u>1% Increase in Discount Rate (9%)</u>
District's Proportionate Share of the Net Pension Liability	<u>\$ 3,511,501</u>	<u>\$ 2,241,176</u>	<u>\$ 1,183,075</u>

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At August 31, 2016, the Sonora Independent School District reported a net pension liability of \$2,241,176 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	\$ 2,241,176
State's Proportionate Share that is Associated with the District	<u>4,598,223</u>
Total	<u>\$ 6,839,399</u>

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

At August 31, 2015, the employer's proportion of the collective net pension liability was 0.000063402% which was an increase of 0.000027687% from its proportion measured as of August 31, 2014.

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

Economic Assumptions

1. The inflation assumption was decreased from 3% to 2.5%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1%.
3. In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.5% to 2.5%.

Mortality Assumptions

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

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

IV. OTHER INFORMATION - Continued

A. Defined Benefit Pension Plan - Continued

Other Demographic Assumptions

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

Actuarial Methods and Policies

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

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

For the measurement period August 31, 2015, the Sonora Independent School District recognized pension expense of \$655,173 and revenue of \$655,173 for support provided by the State.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 12,270	\$ 86,130
Changes in Actuarial Assumptions	51,572	79,955
Difference Between Projected and Actual Investment Earnings	333,267	-
Changes in Proportion and Difference Between the Employer's Contributions and the Proportionate Share of Contributions	632,717	665
Contributions Paid to TRS Subsequent to the Measurement Date	189,889	0
Totals	\$ 1,219,715	\$ 166,750

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

IV. OTHER INFORMATION - Continued

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

<u>Year Ending</u> <u>August 31,</u>	<u>Pension</u> <u>Expense</u> <u>Amount</u>
2017	\$ 156,946
2018	156,946
2019	156,946
2020	229,841
2021	91,088
Thereafter	71,309

IV. OTHER INFORMATION

B. Retiree Health Plan

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

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

Funding Policy - Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

IV. OTHER INFORMATION - Continued

B. Retiree Health Plan - Continued

those participants selecting the optional coverage. Contribution rates and contribution amounts for fiscal years 2016-2014 are shown in the table below:

Fiscal Year	Active Member		State On-Behalf		District	
	Rate	Amount	Rate	Amount	Rate	Amount
2016	0.65%	\$ 45,754	1.0%	\$ 70,391	0.55%	\$ 38,715
2015	0.65%	45,316	1.0%	69,717	0.55%	38,345
2014	0.65%	43,715	1.0%	67,255	0.55%	36,990

The Medicare 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 Texas Public School Retired Employee Group Insurance Program (TRS-Care), administered by TRS, to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. Medicare Part D payments made on behalf of the District for fiscal years 2016-2014 are shown in the table below:

Fiscal Year	Medicare Part D
2016	\$ 27,563
2015	28,595
2014	18,037

C. Health Care Coverage

During the year ended August 31, 2016, employees of the District were covered by a health insurance plan (the Plan) through the TRS - Active Care Program administered by the Teacher Retirement System. The District contributed \$226 of the employee-only premium per month, and employees, at their option, authorized payroll withholdings to pay contributions for dependents. Under the Plan, the District is not liable for costs incurred beyond the premiums paid.

D. Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters, for which the District participated in a public entity risk pool. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding coverage for each of the past three fiscal years.

E. Property and Liability Coverage

During the year ended August 31, 2016, the District entered into an interlocal participation agreement with the Texas Political Subdivisions Joint Self-Insurance Fund (TPS) for property and casualty coverage through a "guaranteed-cost plan." TPS was formed on September 22, 1983, as the Texas Political Subdivisions Workers' Compensation Joint Self-Insurance Fund to provide a vehicle for workers' compensation coverage. The Texas Political Subdivisions Property Casualty Self-Insurance Fund was formed on October 1, 1991, to provide property and casualty coverage for members, and the two funds are operated jointly as TPS. Operated as a self-insurance pool, TPS offers workers' compensation and property and casualty

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

IV. OTHER INFORMATION - Continued

E. Property and Liability Coverage - Continued

coverage to school districts, municipalities, hospital districts, counties, appraisal districts, port authorities, junior colleges, cities, housing authorities, municipal water districts, and other political subdivisions in accordance with the terms of interlocal agreements among members.

Guaranteed-cost members, who are nonassessable, combine their contributions to cover pooled losses and expenses. The required contribution for each guaranteed-cost member is based upon the member's experience rated manual contribution affected by a factor for individual risk's qualifications.

As required by interlocal agreement, TPS obtains specific excess of loss coverage over and above the self-insured retention stated in the interlocal agreement, so that members will not have joint and several liability beyond their required contribution. TPS maintains adequate reinsurance to protect the integrity of the Fund and to reduce catastrophic and larger than anticipated losses. The terms and limits vary by line of coverage. The Fund uses an independent actuary to determine adequacy of reserves, and TPS fully funds those reserves. For the year ended August 31, 2016, TPS anticipates that the District has no additional liability beyond the contracted obligations for payment of contributions and/or any audits or addenda that may apply.

TPS is member owned and governed by a nine-member elected Board of Trustees, all active and committed volunteers representing local governments all across Texas. Trustees are Fund members themselves and operate the Fund on behalf of the Fund members pursuant to TPS Bylaws. TPS purchases reinsurance through A-rated carriers who require an independent annual actuarial study, which maintains the financial integrity and stability of the program. TPS is fully funded for losses, loss development and incurred but not reported losses (IBNR).

F. Unemployment Compensation Coverage

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

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

G. Workers' Compensation Insurance

During the year ended August 31, 2016, the District met its statutory workers' compensation obligations through participation in the Deep East Texas Self Insurance Fund (the Fund), a public entity risk pool, which is self-sustained through member premiums. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Workers' Compensation Program is authorized by Chapter 504, of the Texas Labor Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. The Fund provides statutory workers' compensation benefits to its members and their injured employees.

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements - Continued
August 31, 2016

IV. OTHER INFORMATION - Continued

G. Workers' Compensation Insurance - Continued

The Fund and its members are protected against higher than expected claim costs through the purchase of stop-loss coverage for any claims in excess of the Fund's self-insured retention of \$1,000,000. The Fund uses the services of an independent actuary to determine reserve adequacy and fully funds those reserves. As of August 31, 2016, the Fund carries a discounted reserve of \$7,106,733 for future development on reported claims and claims that have been incurred but not yet reported. For the year ended August 31, 2016, the Fund anticipates no additional liability to members beyond their contractual obligations for payment of contributions.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on June 30. 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 June 30, 2015, are available at the Fund's offices.

H. Contingencies

The District participates in numerous state and federal 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 combined financial statements for such contingencies.

I. Adjustments to Net Position/Fund Balances

The financial statements reflect the following prior period adjustments:

	Net Position <u>Exhibit B-1</u>	Fund Balances <u>Exhibit C-3</u>
General Fund		
Foundation Adjustment	\$ 145,316	\$ 145,316

J. Subsequent Events

The Sonora Independent School District entered into an agreement with the state enabling it to reduce its wealth per weighted student by purchasing attendance credits for the 2016-2017 school year.

In September 2016, the Board of Trustees approved a change in fiscal year end from August 31 to June 30 for the 2016-17 fiscal year. The year will begin on September 1, 2016, and will end ten months later on June 30, 2017. This fiscal year change will align the fiscal year with the school year. This fiscal year change amendment request was approved by the TEA on November 2, 2016.

The District's management has evaluated subsequent events through November 3, 2016, the date which the financial statements were available for issue.

Required Supplementary Information

SONORA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 6,393,396	\$ 6,361,694	\$ 6,419,112	\$ 57,418
5800	State Program Revenues	4,730,278	4,554,005	4,501,840	(52,165)
5900	Federal Program Revenues	26,000	34,000	34,003	3
5020	Total Revenues	11,149,674	10,949,699	10,954,955	5,256
EXPENDITURES:					
Current:					
0011	Instruction	5,915,914	5,895,004	5,858,728	36,276
0012	Instructional Resources and Media Services	137,268	124,868	122,278	2,590
0013	Curriculum and Instructional Staff Development	358,236	234,732	211,494	23,238
0021	Instructional Leadership	130,413	119,613	117,782	1,831
0023	School Leadership	633,818	643,606	642,691	915
0031	Guidance, Counseling, and Evaluation Services	325,652	325,652	320,597	5,055
0033	Health Services	66,510	66,510	65,685	825
0034	Student (Pupil) Transportation	271,260	520,035	501,900	18,135
0035	Food Services	15,168	15,168	16,301	(1,133)
0036	Extracurricular Activities	886,293	999,377	992,335	7,042
0041	General Administration	401,402	416,402	405,270	11,132
0051	Facilities Maintenance and Operations	1,464,670	1,614,815	1,612,770	2,045
0052	Security and Monitoring Services	38,910	26,910	23,773	3,137
0053	Data Processing Services	290,760	266,760	263,465	3,295
Intergovernmental:					
0099	Other Intergovernmental Charges	213,400	216,400	216,202	198
6030	Total Expenditures	11,149,674	11,485,852	11,371,271	114,581
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(536,153)	(416,316)	119,837
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out (Use)	-	(60,000)	(55,355)	4,645
1200	Net Change in Fund Balances	-	(596,153)	(471,671)	124,482
0100	Fund Balance - September 1 (Beginning)	12,418,488	12,418,488	12,418,488	-
1300	Increase (Decrease) in Fund Balance	-	-	145,316	145,316
3000	Fund Balance - August 31 (Ending)	\$ 12,418,488	\$ 11,822,335	\$ 12,092,133	\$ 269,798

SONORA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT E-2

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.000063402%	0.000035715%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 2,241,176	\$ 953,997
State's Proportionate Share of the Net Pension Liability (Asset) Associated with the District	4,598,223	3,958,383
Total	<u>\$ 6,839,399</u>	<u>\$ 4,912,380</u>
District's Covered-Employee Payroll	\$ 6,971,739	\$ 6,725,457
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	32.15%	14.18%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.43%	83.25%

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

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

SONORA INDEPEDENT SCHOOL DISTRICT
 SCHEDULE OF DISTRICT'S CONTRIBUTIONS
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR FISCAL YEAR 2016

EXHIBIT E-3

	2016	2015
Contractually Required Contribution	\$ 189,889	\$ 187,735
Contribution in Relation to the Contractually Required Contribution	(189,889)	(187,735)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
District's Covered-Employee Payroll	\$ 7,039,134	\$ 6,971,739
Contributions as a Percentage of Covered-Employee Payroll	2.70%	2.69%

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

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

SONORA INDEPENDENT SCHOOL DISTRICT
Notes to the Required Supplementary Information
August 31, 2016

Note A - Net Pension Liability

Changes of Benefit Terms

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

Changes of Assumptions

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

Economic Assumptions

1. The inflation assumption was decreased from 3% to 2.5%.
2. The ultimate merit assumption for long-service employees was decreased from 1.25% to 1%.
3. In accordance with the observed experience, there were small adjustments in the service-based promotional/longevity component of the salary scale.
4. The payroll growth assumption was lowered from 3.5% to 2.5%.

Mortality Assumptions

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

Other Demographic Assumptions

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

Actuarial Methods and Policies

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

Other Supplementary Information

SONORA INDEPEDENT SCHOOL DISTRICT
 SCHEDULE OF DELINQUENT TAXES RECEIVABLE
 FISCAL YEAR ENDED AUGUST 31, 2016

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2007 and prior years	Various	Various	\$ Various
2008	1.040000	0.080000	1,394,245,653
2009	1.040000	0.055000	1,706,518,959
2010	1.040000	0.064000	1,328,940,181
2011	1.040000	0.079690	1,048,719,315
2012	1.040000	0.079690	761,822,627
2013	1.040000	0.050000	725,008,444
2014	1.040000	0.050000	610,253,586
2015	1.040000	0.050000	604,062,522
2016 (School year under audit)	1.040000	0.046370	572,173,916
1000 TOTALS			

(10) Beginning Balance 9/1/2015	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2016
\$ 5,396	\$ -	\$ 34	\$ 2	\$ (703)	\$ 4,657
3,636	-	-	-	1	3,637
4,761	-	-	-	-	4,761
2,738	-	44	3	1	2,692
4,555	-	1,108	85	-	3,362
5,638	-	2,279	175	208	3,392
8,235	-	3,459	166	192	4,802
47,262	-	19,465	936	223	27,084
123,492	-	63,480	3,053	206	57,165
-	6,301,678	5,911,400	263,575	-	126,703
<u>\$ 205,713</u>	<u>\$ 6,301,678</u>	<u>\$ 6,001,269</u>	<u>\$ 267,995</u>	<u>\$ 128</u>	<u>\$ 238,255</u>

SONORA INDEPEDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 216,561	\$ 135,853	\$ 142,148	\$ 6,295
5800 State Program Revenues	2,400	2,984	3,063	79
5900 Federal Program Revenues	325,500	340,500	346,084	5,584
5020 Total Revenues	<u>544,461</u>	<u>479,337</u>	<u>491,295</u>	<u>11,958</u>
EXPENDITURES:				
0035 Food Services	<u>544,461</u>	<u>549,461</u>	<u>543,979</u>	<u>5,482</u>
6030 Total Expenditures	<u>544,461</u>	<u>549,461</u>	<u>543,979</u>	<u>5,482</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(70,124)	(52,684)	17,440
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	60,000	55,355	(4,645)
1200 Net Change in Fund Balances	-	(10,124)	2,671	12,795
0100 Fund Balance - September 1 (Beginning)	<u>10,285</u>	<u>10,285</u>	<u>10,285</u>	<u>-</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 10,285</u>	<u>\$ 161</u>	<u>\$ 12,956</u>	<u>\$ 12,795</u>

SONORA INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - DEBT SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 274,150	\$ 269,600	\$ 271,526	\$ 1,926
5800	State Program Revenues	-	3,669	3,669	-
5020	Total Revenues	274,150	273,269	275,195	1,926
EXPENDITURES:					
Debt Service:					
0071	Principal on Long-Term Debt	265,000	265,000	265,000	-
0072	Interest on Long-Term Debt	8,150	8,150	8,150	-
0073	Bond Issuance Cost and Fees	1,000	119	-	119
6030	Total Expenditures	274,150	273,269	273,150	119
1200	Net Change in Fund Balances	-	-	2,045	2,045
0100	Fund Balance - September 1 (Beginning)	76,960	76,960	76,960	-
3000	Fund Balance - August 31 (Ending)	\$ 76,960	\$ 76,960	\$ 79,005	\$ 2,045

COMPLIANCE AND INTERNAL CONTROLS SECTION



A Limited Liability Partnership

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

Board of Trustees
Sonora Independent School District
807 South Concho
Sonora, TX 76950-3999

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Sonora Independent School District as of and for the year ended August 31, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 3, 2016.

Internal Control Over Financial Reporting

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

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Eckert & Company, LLP

November 3, 2016

SONORA INDEPENDENT SCHOOL DISTRICT
 Schedule of Findings and Questioned Costs
 Year Ended August 31, 2016

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued		<u>Unmodified</u>	
Internal Control Over Financial Reporting			
Material weaknesses identified?	___ Yes	<u>X</u> No	
Significant deficiencies identified that are not considered to be material weaknesses?	___ Yes	<u>X</u> None Reported	
Noncompliance material to financial statements noted?	___ Yes	<u>X</u> No	

Federal Awards

Under the guidelines in the Uniform Guidance, a Single Audit was not required due to expenditures of federal awards being below \$750,000.

Total Federal Program Revenues Per Exhibit C-3	\$ 771,462
E-Rate School and Library Program (Not Subject to Single Audit)	<u>(34,003)</u>
Total Expenditures of Federal Awards Subject to Single Audit	<u><u>\$ 737,459</u></u>

B. Findings - Financial Statements Audit

None

C. Findings - State Compliance

None

SCHOOLS FIRST QUESTIONNAIRE

SONORA INDEPENDENT SCHOOL DISTRICT

Fiscal Year 2016

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	0
SF11	Net Pension Assets (1920) at fiscal year-end.	0
SF12	Net Pension Liabilities (2540) at fiscal year-end.	2241176
SF13	Pension Expense (6147) at fiscal year-end.	206883