

FRANKSTON INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2016

FRANKSTON INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2016

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	Table of Contents	1
	Certificate of Board	3
	Independent Auditor's Report	4
	Management's Discussion and Analysis	7
	Financial Statements:	
	Government - Wide Financial Statements:	
A-1	Statement of Net Position	15
B-1	Statement of Activities	16
	Governmental Fund Financial Statements:	
C-1	Balance Sheet	17
C-2	Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	18
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balances	19
C-4	Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	20
	Proprietary Fund Financial Statements:	
D-1	Statement of Net Position	N/A
D-2	Statement of Revenues, Expenses, and Changes in Fund Assets	N/A
D-3	Statement of Cash Flows	N/A
	Fiduciary Fund Financial Statements:	
E-1	Statement of Fiduciary Net Position	21
E-2	Statement of Changes in Fiduciary Net Position	N/A
	Notes to the Financial Statements	22
	Required Supplementary Information:	
G-1	Budgetary Comparison Schedule - General Fund	56
G-2	Schedule of the District's Proportionate Share of the Net Pension Liability- Teacher Retirement System	57
G-3	Schedule of District Contributions - Teacher Retirement System	58
	Notes to Required Supplementary Information	59

FRANKSTON INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2016

TABLE OF CONTENTS, CONTINUED

<u>Exhibit</u>		<u>Page</u>
	Combining Statements:	
	Nonmajor Governmental Funds:	
H-1	Combining Balance Sheet	60
H-2	Combining Statement of Revenues, Expenditures and Changes in Fund Balances	61
	Required TEA Schedules:	
J-1	Schedule of Delinquent Taxes Receivable	62
J-2		N/A
J-3	Fund Balance and Cash Flow Calculation Worksheet	63
J-4	Budgetary Comparison Schedule - Child Nutrition Fund	64
J-5	Budgetary Comparison Schedule - Debt Service Fund	65
	Compliance, Internal Control and Federal Awards:	
	Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	66
	Schedule of Findings and Questioned Costs	68
	Summary Schedule of Prior Audit Findings	70
	Corrective Action Plan	71
K-1	Schedule of Expenditures of Federal Awards	72
	Notes to the Schedule of Expenditures of Federal Awards	73

CERTIFICATE OF BOARD

Frankston Independent School District
Name of School District

Anderson
County

001-904
Co. - Dist. No.

We, the undersigned, certify that the attached annual financial reports of the above named school district were reviewed and _____ approved _____ disapproved for the year ended August 31, 2016 at a meeting of the board of school trustees of such school district on the 23 day of January, 2017.



Signature of Board Secretary



Signature of Board President

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

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA
J. W. Lambright, CPA

Cheri E. Kirkland, CPA
David N. Hopkins, CPA

P. O. Box 911
505 E. Tyle
Athens, Texas 7575
(903) 675-567
FAX (903) 675-567
smithlambright.com

**Unmodified Opinions on Basic Financial Statements
Accompanied by Required Supplementary Information and Other Information**

Independent Auditor's Report

Board of School Trustees
Frankston Independent School District
P. O. Box 428
Frankston, Texas 75763

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District as of August 31, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The budgetary comparison schedule - general fund, schedule of district's proportionate share of the net pension liability - TRS, schedule of district contributions - TRS, combining and individual nonmajor fund financial statements, required TEA schedules and schedule of expenditures of federal awards, as required by *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary comparison schedule - general fund, schedule of district's proportionate share of the net pension liability - TRS, schedule of district contributions - TRS, combining and individual nonmajor fund financial statements, required TEA schedules (except for Exhibit J-3) and schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedule - general fund, schedule of district's proportionate share of the net pension liability - TRS, schedule of district contributions - TRS, combining and individual nonmajor fund financial statements, required TEA schedules (except for Exhibit J-3) and schedule of expenditures of federal awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The Exhibit J-3 (Fund Balance and Cash Flow Calculation Worksheet) which is marked UNAUDITED has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 17, 2017 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Respectfully submitted,

Smith, Lambright & Associates, P.C.

SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants
Athens, Texas

January 17, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS



FRANKSTON INDEPENDENT SCHOOL DISTRICT
Preparing for Today and Tomorrow

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Frankston Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2016. Please read it in conjunction with the independent auditors' report and the District's Basic Financial Statements.

FINANCIAL HIGHLIGHTS

- The District's net position increased as a result of this year's operations by 19,183.
- During the year, the District had expenses that were 313,975 less than the 9,379,395 million generated in tax and other revenues for governmental programs.
- The General Fund ended the year with a fund balance of 3,353,304.
- The resources available for appropriation were more than the amount budgeted for the General Fund.

USING THIS ANNUAL REPORT

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

PO Box 428—100 Perry Street
Frankston, TX 75763-0428
T: (903) 876-2556/Fax: (903) 876-4558

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

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The sections labeled TEA Required Schedules and Federal Awards Section contain data used by monitoring or regulatory agencies for assurance that the District is using funds supplied in compliance with the terms of the grants.

Reporting the District as a Whole

The Statement of Net Position and the Statement of Activities

The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

In the Statement of Net Position and the Statement of Activities, the District reports only governmental activities, since the District has no business type activities.

Reporting the District's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds, not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes, such as Campus Activities.

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

The District as Trustee

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or fiduciary, for money raised by student activities and alumnae scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position in the audit report. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets of the District's governmental activities increased from 5,002,609 to 5,021,793. Unrestricted net assets-the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements was 3,170,342 at the end of August 31, 2016.

Increase in net assets before	19,184
Transfers	0
Special items	0
Net assets at the beginning of 9/01/15	5,002,609
Net assets at the end of 8/31/16	5,021,793

The Governmental Funds Statement of Revenue and Expenditures Reported:

The total cost of all programs and services were 9,627,304.

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds reported a combined fund balance of 3,511,783 which is more than last year's total of 3,197,808. Included in this year's total change in fund balance is an increase of 292,113 in the District's General Fund

Over the course of the year, the Board of Trustees revised the District's budget. These budget amendments fall into two categories. The first category includes amendments and supplemental appropriations that were approved after the beginning of the year and reflect the actual beginning balances versus the balances estimated in August 2015. The second category involved amendments moving funds from programs that did not need the resources appropriated to them into programs with resource needs.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the District had 27,621,913 invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. This amount represents a net increase of 74,070 or 1.40 % above last year.

This year's major additions included:

- A. Building improvements
- B. Purchase of a new bus

Debt

On June 1, 2016, The Frankston Independent School District issued 4,555,000 in Unlimited Tax Refunding Bonds, Series 2016, with interest rates of 2.0% to 3.0%. The Bonds were issued pursuant to the Constitution and general laws of the State of Texas, and adopted by the Board of Trustees on May 16, 2016. Proceeds from the sale of the Bonds will be used to (1) refund a portion of the District's outstanding bonds for debt service savings and (2) pay the costs of issuing the Bonds. The debt service savings has been calculated to be 400,000.

At year-end, the District had 15,491,275 in bonds and notes outstanding. In November 2011, the voters approved a \$17.3 bond. These were issued as Series 11 and Series 12. For more detailed information please refer to the Bond Payable charts in the audit report.

ECONOMIC FACTORS: NEXT YEAR'S BUDGET AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal-year 2017 budget and tax rates. Amounts available for appropriation in the General Fund budget are 7,426,376, a decrease of 1.5% from the final 2016 budget of 7,539,195. Property taxes remained at a total of \$1.17 for M&O and \$0.40 for I&S, for a total tax rate of \$1.57.

If these estimates are realized, the District's budgetary General Fund balance will remain unchanged by the close of 2017. The District will continue to monitor enrollment figures and tax collections and will implement spending cuts if significant decreases occur in either.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Frankston Independent School District, 100 Perry Street, or P.O. Box 428, Frankston, Texas 75763. The phone number is 903-876-2556.

Frankston Independent School District Changes in Net Position for Years Stated

	2014-2015	2015-2016
Revenues:		
<i>Program Revenues</i>		
Charges for Services	231,136	217,274
Operating Grants	891,686	1,106,337
<i>General Revenues</i>		
Taxes	2,947,481	2,734,246
Debt Service Taxes	913,252	940,314
State Aid Formula Grants	3,820,186	4,387,844
Grants and Contributions Not Restricted	2,828	1,900
Investment Earnings	3,757	22,350
Miscellaneous	108,618	236,222
Special Item-Capital Adj	(223,752)	0
Total General Revenue	7,572,370 0	8,322,876
Expenses:		
Instruction	4,148,865	4,876,321
Inst Res & Media Services	78,221	104,489
Curr & Staff Development	96,674	138,502
Instructional Leadership	0	0
School Leadership	457,426	470,506
Guidance & Counseling	138,606	154,424
Health Services	83,528	94,821
Student Transportation	203,524	166,780
Food Services	503,897	454,226
Cocurr/Extracurr Activity	751,385	666,971
General Administration	383,086	391,988
Plant Maint & Operations	840,263	949,726
Data Processing Services	256,678	257,479
Security & Monitoring Serv	39,422	45,541
Debt Service-Int LT Debt	529,283	519,525
Debt Serv-Bond Issue & Fee	1,200	85,290
Facility Acquisition/Construc	9,463	17,929
Payments to Fiscal Agents	151,627	161,287
Other Governmental Charges	70,284	71,499
Total Expenses	8,743,432	9,627,304
<i>Change in Net Position</i>	<i>(48,240)</i>	<i>19,183</i>

FINANCIAL STATEMENTS

FRANKSTON INDEPENDENT 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	\$ 389,555
1120 Current Investments	2,947,839
1220 Property Taxes Receivable (Delinquent)	462,201
1230 Allowance for Uncollectible Taxes	(23,110)
1240 Due from Other Governments	410,751
1267 Due from Fiduciary Funds	385
1410 Prepayments	40,516
Capital Assets:	
1510 Land	81,180
1520 Buildings, Net	16,983,971
1530 Furniture and Equipment, Net	816,029
1000 Total Assets	22,109,317
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS	714,631
1700 Total Deferred Outflows of Resources	714,631
LIABILITIES	
2110 Accounts Payable	20,765
2140 Interest Payable	20,310
2160 Accrued Wages Payable	256,498
Noncurrent Liabilities	
2501 Due Within One Year	455,000
2502 Due in More Than One Year	15,733,208
2540 Net Pension Liability (District's Share)	1,225,220
2000 Total Liabilities	17,711,001
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	91,154
2600 Total Deferred Inflows of Resources	91,154
NET POSITION	
3200 Net Investment in Capital Assets	1,692,972
3820 Restricted for Federal and State Programs	1,076
3850 Restricted for Debt Service	87,424
3870 Restricted for Campus Activities	69,979
3900 Unrestricted	3,170,342
3000 Total Net Position	\$ 5,021,793

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

FRANKSTON INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2016

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	6
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 4,876,321	\$ -	\$ 532,370	\$ (4,343,951)
12 Instructional Resources and Media Services	104,489	-	72,906	(31,583)
13 Curriculum and Staff Development	138,502	-	10,833	(127,669)
23 School Leadership	470,506	-	39,520	(430,986)
31 Guidance, Counseling and Evaluation Services	154,424	-	11,824	(142,600)
33 Health Services	94,821	-	7,646	(87,175)
34 Student (Pupil) Transportation	166,780	-	3,403	(163,377)
35 Food Services	454,226	115,694	303,902	(34,630)
36 Extracurricular Activities	666,971	101,580	16,237	(549,154)
41 General Administration	391,988	-	21,860	(370,128)
51 Facilities Maintenance and Operations	949,726	-	34,226	(915,500)
52 Security and Monitoring Services	45,541	-	-	(45,541)
53 Data Processing Services	257,479	-	51,610	(205,869)
72 Debt Service - Interest on Long Term Debt	519,525	-	-	(519,525)
73 Debt Service - Bond Issuance Cost and Fees	85,290	-	-	(85,290)
81 Capital Outlay	17,929	-	-	(17,929)
93 Payments related to Shared Services Arrangements	161,287	-	-	(161,287)
99 Other Intergovernmental Charges	71,499	-	-	(71,499)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 9,627,304	\$ 217,274	\$ 1,106,337	(8,303,693)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	2,734,246
DT	Property Taxes, Levied for Debt Service	940,314
SF	State Aid - Formula Grants	4,387,844
GC	Grants and Contributions not Restricted	1,900
IE	Investment Earnings	22,350
MI	Miscellaneous Local and Intermediate Revenue	236,222
TR	Total General Revenues	8,322,876
CN	Change in Net Position	19,183
NB	Net Position - Beginning	5,002,610
NE	Net Position--Ending	\$ 5,021,793

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

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

Total Fund Balances - Governmental Funds	\$	3,511,783
1 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$27,247,843 and the accumulated depreciation was (\$8,809,285). 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 long term debt was \$16,528,382. 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.		1,910,176
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 the 2016 capital outlays and debt principal payments is to increase (decrease) net position.		601,163
3 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$1,225,220, a Deferred Resource Inflow related to TRS in the amount of \$91,154 and a Deferred Resource Outflow related to TRS in the amount of \$714,631. This amounted to a decrease in Net Position.		(601,743)
4 The 2016 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(795,250)
5 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, 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.		395,664
19 Net Position of Governmental Activities	\$	5,021,793

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

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

Data Control Codes	10 General Fund	50 Debt Service Fund	Other Funds	Total Governmental Funds
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 2,902,216	\$ 948,841	\$ 197,219	\$ 4,048,276
5800 State Program Revenues	4,636,979	53,729	65,196	4,755,904
5900 Federal Program Revenues	-	-	575,215	575,215
5020 Total Revenues	<u>7,539,195</u>	<u>1,002,570</u>	<u>837,630</u>	<u>9,379,395</u>
EXPENDITURES:				
Current:				
0011 Instruction	3,875,099	-	224,506	4,099,605
0012 Instructional Resources and Media Services	27,982	-	72,644	100,626
0013 Curriculum and Instructional Staff Development	132,417	-	-	132,417
0023 School Leadership	444,915	-	-	444,915
0031 Guidance, Counseling and Evaluation Services	147,757	-	-	147,757
0033 Health Services	90,917	-	-	90,917
0034 Student (Pupil) Transportation	88,528	-	-	88,528
0035 Food Services	3,850	-	443,809	447,659
0036 Extracurricular Activities	522,354	-	116,152	638,506
0041 General Administration	374,512	-	-	374,512
0051 Facilities Maintenance and Operations	919,353	-	-	919,353
0052 Security and Monitoring Services	45,541	-	-	45,541
0053 Data Processing Services	201,940	-	38,793	240,733
Debt Service:				
0071 Principal on Long Term Debt	-	445,000	-	445,000
0072 Interest on Long Term Debt	-	501,857	-	501,857
0073 Bond Issuance Cost and Fees	-	1,200	-	1,200
Capital Outlay:				
0081 Facilities Acquisition and Construction	114,938	-	-	114,938
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of SSA	161,287	-	-	161,287
0099 Other Intergovernmental Charges	71,499	-	-	71,499
6030 Total Expenditures	<u>7,222,889</u>	<u>948,057</u>	<u>895,904</u>	<u>9,066,850</u>
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>316,306</u>	<u>54,513</u>	<u>(58,274)</u>	<u>312,545</u>
OTHER FINANCING SOURCES (USES):				
7911 Capital Related Debt Issued (Regular Bonds)	-	4,555,000	-	4,555,000
7915 Transfers In	-	-	24,193	24,193
7916 Premium or Discount on Issuance of Bonds	-	270,520	-	270,520
8911 Transfers Out (Use)	(24,193)	-	-	(24,193)
8949 Other (Uses)	-	(4,824,090)	-	(4,824,090)
7080 Total Other Financing Sources (Uses)	<u>(24,193)</u>	<u>1,430</u>	<u>24,193</u>	<u>1,430</u>
1200 Net Change in Fund Balances	292,113	55,943	(34,081)	313,975
0100 Fund Balance - September 1 (Beginning)	<u>3,061,191</u>	<u>31,481</u>	<u>105,136</u>	<u>3,197,808</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 3,353,304</u>	<u>\$ 87,424</u>	<u>\$ 71,055</u>	<u>\$ 3,511,783</u>

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

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

Total Net Change in Fund Balances - Governmental Funds	\$	313,975
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 the 2016 capital outlays and debt principal payments is to increase (decrease) net position.		601,163
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.		(795,250)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to 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, reclassifying the proceeds of bond sales, 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.		(1,058)
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2015 caused the change in the ending net position to increase in the amount of \$124,684. Contributions made before the measurement and during the previous fiscal year were also expended and recorded as a reduction in the net pension liability for the district. This caused a decrease in the change in net position in the amount of \$104,547. The District's proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net pension expense decreased the change in net position of \$119,784. The net result is to increase (decrease) the change in net position.		(99,647)
Change in Net Position of Governmental Activities	\$	19,183

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

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

	Agency Funds
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 77,984
Total Assets	<u>\$ 77,984</u>
LIABILITIES	
Due to Other Funds	\$ 385
Due to Student Groups	77,599
Total Liabilities	<u>\$ 77,984</u>

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Frankston Independent School District (“The District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board and other authoritative sources identified in *GASB Statement No. 56* ; and it complies with the requirements of the appropriate version of Texas Education Agency’s *Financial Accountability System Resource Guide* (the “Resource Guide”) and the requirements of contracts and grants of agencies from which it receives funds.

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

A. REPORTING ENTITY

The Board of Trustees (the “Board”) has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public, has the authority to make decisions, appoint administrators and managers, significantly influence operations, and has primary accountability for fiscal matters. As such, the District is not included in any other governmental “reporting entity” as defined by *GASB Statement No. 14, The Financial Reporting Entity*. There are no component units included within the reporting entity. The District receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities.

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by taxes, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support.

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

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from /to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All other revenues and expenses are nonoperating.

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

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

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

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

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

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

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

The proprietary fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable. The Agency funds apply the accrual basis of accounting but do not have a measurement focus. All assets and all liabilities associated with operation of these funds are included on the Statement of Net Position. The total net position is segregated into invested in capital assets net of related debt, restricted net position, and unrestricted net position.

The fiduciary fund types are accounted for on a flow of economic resources measurement focus and utilize the accrual basis of accounting. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable and expenses in the accounting period in which they are incurred and become measurable.

The Agency funds apply the accrual basis of accounting but do not have a measurement focus as they report only assets and liabilities.

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

D. FUND ACCOUNTING

The District's accounts are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which are comprised of each fund's assets, liabilities, equity, revenues, and expenditures or expenses.

The District reports the following fund types:

Governmental Funds:

- 1. General Fund** - The general fund is the District's primary operating fund and is always reported as a major fund. It accounts for all financial resources except those required to be accounted for in another fund.
- 2. Special Revenue Funds** - The District accounts for resources restricted to, or designated for specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.
- 3. Debt Service Fund** - The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.
- 4. Capital Projects Fund** - The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

Fiduciary Funds:

- 5. Agency Funds** - The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Funds are the student activity fund and the clearing fund for workers compensation.

E. CASH AND CASH EQUIVALENTS

For the purposes of the statement of cash flows for proprietary and similar fund-types, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

F. INVENTORIES

The District records purchases of supplies as expenditures. Inventory on the balance sheet, if present, is recorded at cost and represents supplies and materials purchased for the subsequent school year. Food service commodities are recorded at fair market value as supplied by the Texas Department of Human Services.

G. PREPAYMENTS

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments in both government-wide and fund financial statements.

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

H. CAPITAL ASSETS

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

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

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

<u>Assets</u>	<u>Years</u>
Buildings	30
Vehicles	10
Furniture and Equipment	7 - 20

Land and construction in progress are not depreciated.

I. DEFERRED OUTFLOWS / DEFERRED INFLOWS OF RESOURCES

GASB No. 63 and GASB No. 65 provide guidance on financial reporting related to deferred outflows of resources and deferred inflows of resources. The objective of these statements is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position.

In addition to assets, the Balance Sheet and Statement of Net Position may report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the Balance Sheet and Statement of Net Position may report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow or resource (revenue) until that time.

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

J. LONG TERM DEBT

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as current year debt service expenditures.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. 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.

K. FUND BALANCE

The Governmental Accounting Standards Board has issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes.

GASB 54 requires the fund balance amounts to be properly reported within one of the fund balance categories list below:

1. **Nonspendable fund balance** - includes amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example, inventories and prepaid amounts. It also includes the long-term amount of loans and notes receivable.
2. **Restricted Fund Balance** - includes amounts that are restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions of enabling legislation.
3. **Committed Fund Balance** - includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the District's Board of Trustees. Those committed amounts cannot be used for any other purposes unless the Board removes or changes the specified use by taking the same type of action it employed to previously commit those amounts.
4. **Assigned Fund Balance** - includes amounts that are constrained by the District's intent to be used for specific purposes, but are neither restricted nor committed. Intent should be expressed by the Board or by other officials to which the Board has delegated the authority to assign amounts to be used for specific purposes. When it is appropriate for fund balance to be assigned, the Board delegates the responsibility to assign funds to the Superintendent or his/her designee.
5. **Unassigned Fund Balance** - is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

The District will utilize funds in the following spending order: Restricted, Committed, Assigned and Unassigned.

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

L. USE OF ESTIMATES

The presentation of financial statements, in conformity with Generally Accepted Accounting Principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

M. DATA CONTROL CODES

The Data Control Codes refer to the account code structure prescribed by TEA in the *Financial Accountability System Resource Guide*. Texas Education Agency requires school districts to display these codes in the financial statements filed with the Agency in order to insure accuracy in building a Statewide data base for policy development and funding plans.

N. TEACHER RETIREMENT SYSTEM

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/deduction 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 of the system are reported at fair value.

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

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide statement of net position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets at the Beginning of the year</u>	<u>Historical Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Value at the Beginning of the Year</u>	<u>Change in Net Position</u>
Land	\$ 81 180	\$	\$ 81 180	
Buildings & Improvements	24 475 659	7 101 639	17 374 020	
Furniture & Equipment	2 042 600	1 707 646	334 954	
Non-Depreciable Assets	<u>648 404</u>	<u></u>	<u>648 404</u>	
Totals	<u>\$ 27 247 843</u>	<u>\$ 8 809 285</u>		
Change in Net Position				\$ 18 438 558
<u>Long-term Liabilities at the Beginning of the year</u>			<u>Payable at the Beginning of the Year</u>	
Bonds Payable			\$ 16 121 275	
Accretion Payable			114 032	
Premium on Issuance of Bonds			<u>293 075</u>	
Change in Net Position				<u>(16 528 382)</u>
Net Adjustment to Net Position				<u>\$ 1 910 176</u>

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

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibit C-4 provides a reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide statement of activities. One element of that reconciliation explains that current year capital outlays and debt principal payments are expenditures in the fund financial statements, but should be shown as increases in capital assets and decreases in long-term debt in the government-wide statements. This adjustment affects both the net asset balance and the change in net position. The details of this adjustment are as follows:

	Amount	Adjustments to Changes in Net Assets	Adjustments to Net Position
Current Year Capital Outlay:			
Buildings & Improvements	\$ 89 509		
Furniture & Equipment	66 654		
Total Capital Outlay	156 163	156 163	156 163
 Debt Payments:			
Bond Principal	445 000		
Total Principal Payments	\$ 445 000	445 000	445 000
 Capital Asset Adjustment			
Total Adjustment to Net Position		\$ 601 163	\$ 601 163

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

C. EXPLANATION OF OTHER DIFFERENCES

Another element of the reconciliation on Exhibits C-2 and C-4 is described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

	<u>Amount</u>	<u>Adjustments to Change in Net Position</u>	<u>Adjustments to Net Position</u>
Adjustments to Revenue and Deferred Revenue:			
Taxes Collected from Prior Year Levies	\$ 114 863	\$ (114 863)	\$
Uncollected taxes (assumed collectible) from Current Year Levy	135 284	135 284	135 284
Uncollected Taxes (assumed collectible) from Prior Year Levy	303 807		303 807
Reclassify Proceeds of Bonds:			
Bond Proceeds	4 555 000	(4 555 000)	(4 555 000)
Bonds Refunded	4 740 000	4 740 000	4 740 000
Reclassify Bond Related Items:			
Bond Premium	270 520	(270 520)	(270 520)
Accrued Interest on Debt:			
Prior Year	21 948	21 948	
Current Year	20 310	(20 310)	(20 310)
Accretion on Capital Appreciation Bonds:			
Current Year Accrued	34 663	(34 663)	(34 663)
Current Year Paid	0		
Bond Premium Amortization:			
Current Year	15 357	15 357	15 357
Capital Asset Adjustment	81 709	<u>81 709</u>	<u>81 709</u>
Total		<u>\$ (1 058)</u>	<u>\$ 395 664</u>

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

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund and the Food Service Fund (which is included in the Special Revenue Fund). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund budget report appears in Exhibit G-I and the other two reports are in Exhibits J-4 and J-5.

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

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days' public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are to be made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. The budget was amended during the year.

Each budget is controlled at the organizational level by the administration, appropriate department head or campus principal within Board allocations at the revenue and expenditure function /object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

		<u>August 31, 2016</u> <u>Fund Balance</u>
Appropriated Budget Funds - Food Service Special Revenue Fund	\$	0
Nonappropriated Budget Funds		<u>71 055</u>
All Special Revenue Funds		<u>\$ 71 055</u>

B. BUDGET VARIANCE

The District made expenditures in excess of the budgeted amount in two functions of the General Fund, due to audit adjustments to record year end accruals for workers compensation and compensated absences. The budget was not exceeded prior to these entries.

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

C. ENCUMBRANCE ACCOUNTING

Encumbrance accounting, under which purchase orders, contracts, and other commitments are recorded in order to reserve that portion of the applicable appropriation, is used in all governmental funds. Encumbrances outstanding at year-end are commitments that do not constitute expenditures or liabilities, but are reported as assignments of fund balances. Since appropriations lapse at the end of each fiscal year, outstanding encumbrances are appropriately provided for in the subsequent fiscal year's budget to provide for the liquidation of the prior commitments. There were no outstanding encumbrances at the end of the fiscal year that were subsequently provided for in the 2016-2017 budget.

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

IV. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS

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.

State statutes and Board policy authorize the District to invest in 1) Obligations of, or guaranteed by, governmental entities as permitted by Government Code 2256.009.; 2) Certificates of deposit and share certificates as permitted by Government Code 2256.010.; 3) Fully collateralized repurchase agreements permitted by Government Code 2256.011.; 4) A securities lending program as permitted by Government Code 2256.0115.; 5) Banker's acceptances as permitted by Government Code 2256.012.; 6) Commercial paper as permitted by Government Code 2256.013.; 7) No load money market mutual funds and no load mutual funds as permitted by Government Code 2256.014.; 8) A guaranteed investment contract as an investment vehicle for bond proceeds, provided it meets the criteria and eligibility requirements established by Government Code 2256.015.; and 9) Public funds investment pools as permitted by Government Code 2256.016.

In compliance with the Public Funds Investment Act, the District has adopted an investment policy. The District is in substantial compliance with the requirements of the Act and with local policies. The risks that the District may be subject are:

- a. **Custodial Credit Risk - Deposits:** This is the risk that in the event of a bank failure, the District's deposits, including checking, money market accounts and certificates of deposit, may not be returned to it.

The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. During 2015-2016 the District's combined deposits were fully insured by federal depository insurance or collateralized with securities pledged to the District and held by the District's agent.

The largest combined balances of cash, savings and time deposit accounts amounted to \$2,080,364 and occurred on February 5, 2016. The amount of bond or market value of securities pledged as of the date of the highest combined balance on deposit was \$3,009,552. The total amount of FDIC coverage at the time of the highest combined balance was \$500,000.

- b. **Custodial Credit Risk - Investments:** This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. Any investment that is both uninsured and unregistered is exposed to custodial credit risk if the investment is held by the counterparty, or if the investment is held by the counterparty's trust department or agent, but not in the name of the investor government. Investments are subject to custodial credit risk only if they are evidenced by securities that exist in physical or book entry form. Positions in external investment pools are not subject to custodial credit risk.

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

- c. Interest Rate Risk: Interest rate risk occurs when potential purchasers of debt securities do not agree to pay face value for those securities if interest rates rise. Investments with interest rates that are fixed for longer periods are likely to be subject to more variability in their fair values as a result of future changes in interest rates.
- d. Concentration of Credit Risk: Concentration risk is defined as positions of five percent or more in the securities of a single issuer. This is the issuer of the underlying investment, and not a pool. This does not apply to U.S. Government securities.

CASH DEPOSITS

At August 31, 2016, the amount of the District's cash balance in checking accounts was \$461,739. Cash on hand was \$5,800.

INVESTMENTS - CASH EQUIVALENTS

The District's investments - cash equivalents at August 31, 2016, are shown below:

<u>Investment Type</u>	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
First Public / Lone Star Investment Pool	\$ 1 697 924	\$ 1 698 469	.063014
Texas CLASS	<u>1 249 915</u>	<u>1 249 915</u>	.153425
Total Investments	<u>\$ 2 947 839</u>	<u>\$ 2 948 384</u>	

INVESTMENTS - OTHER

The District's investments - other at August 31, 2016, are shown below:

	<u>Cost</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Years)</u>
N/A	\$ _____	\$ _____	
Total Investments	<u>\$ _____</u>	<u>\$ _____</u>	

Local government investment pools operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Local government investment pools use amortized cost rather than market value to report net position to compute share prices. Accordingly the market value of the position in these pools is the same as the value of the shares in each pool, which approximates the carrying amount. The investment pools are organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code.

For the purpose of the statement of cash flows for proprietary fund types, if any, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.

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

B. PROPERTY TAXES

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt of the tax bill and are delinquent if not paid by February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Delinquent taxes not paid by June 30 are subject to penalty and interest charges plus delinquent collection fees for attorney costs. Property taxes are considered available when collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period.

Delinquent taxes are prorated between maintenance and debt service based on rates adopted for the year of the levy. Allowances for uncollectible taxes within the General and Debt Service Funds are based on historical experience in collecting taxes. Uncollectible taxes are periodically reviewed and written off by the District as provided by specific statutory authority from the Texas Legislature.

The assessed value of the property tax roll upon which the levy for the 2015-2016 fiscal year was based, was \$236,757,448. The tax rates assessed for the year ended August 31, 2016 to finance General Fund operations and the payment of principal and interest on general obligation long-term debt were \$1.17 and \$.40 per \$100 valuation, respectively, for a total of \$1.57 per \$100 valuation. Current tax collections for the year ended August 31, 2016 were 96.2% of the year end adjusted tax levy. As of August 31, 2016, property taxes receivable totaled \$383,214 and \$79,987 for the General and Debt Service Funds respectively.

C. RECEIVABLES 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 federal and state governments as of August 31, 2016 are summarized below. All federal grants shown below are passed through the TEA and are reported on the combined financial statements as Receivables from Other Governments.

	General Fund	Debt Service Fund	Other Funds	Totals
State Entitlements	\$ 315 478	\$	\$	\$ 315 478
State Grants			20 234	20 234
Federal Grants			59 982	59 982
Existing Debt Allotment		15 057		15 057
Total	\$ 315 478	\$ 15 057	\$ 80 216	\$ 410 751

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

D. INTERFUND BALANCES AND TRANSFERS

Interfund balances at August 31, 2016 consisted of the following individual fund amounts:

<u>Fund</u>	<u>Due From</u>	<u>Due to</u>
General Fund:		
Debt Service Fund	\$ 1 596	\$
Agency Fund	<u>385</u>	<u> </u>
Total	<u>\$ 1 981</u>	<u>\$</u>
Debt Service Fund:		
General Fund	<u>\$</u>	<u>\$ 1 596</u>
Agency Fund:		
General Fund	<u>\$</u>	<u>\$ 385</u>
Totals	<u>\$ 1 981</u>	<u>\$ 1 981</u>

Interfund transfers for the year ended August 31, 2016 consisted of the following individual fund amounts:

<u>Fund</u>	<u>Transfer In</u>	<u>Transfer Out</u>
General Fund:		
Special Revenue Fund	<u>\$</u>	<u>\$ 24 193</u>
Special Revenue Fund:		
General Fund	<u>\$ 24 193</u>	<u>\$</u>
Totals	<u>\$ 24 193</u>	<u>\$ 24 196</u>

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

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2016, were as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Property Taxes (Net)	\$ 364 053	\$ 75 038	\$	\$ 439 091
Other Governments	315 478	15 057	80 216	410 751
Other Funds	1 981			1 981
Totals	<u>\$ 681 512</u>	<u>\$ 90 095</u>	<u>\$ 80 216</u>	<u>\$ 851 823</u>

Payables at August 31, 2016, were as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Accounts Payable	\$ 20 765	\$	\$	\$ 20 765
Accrued Wages	228 664		27 834	256 498
Other Funds		1 596		1 596
Totals	<u>\$ 249 429</u>	<u>\$ 1 596</u>	<u>\$ 27 834</u>	<u>\$ 278 859</u>

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

F. CAPITAL ASSET ACTIVITY

Capital asset activity for the District's governmental activities for the year ended August 31, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Ending Balance</u>
Nondepreciable Capital Assets				
Land	\$ 81 180	\$	\$	\$ 81 180
Non Depreciable Assets	648 404			648 404
Construction in Progress				
Subtotal Nondepreciable Assets	<u>729 584</u>			<u>729 584</u>
Depreciable Capital Assets				
Building & Improvements	24 475 659	89 509	183 143	24 748 311
Furniture & Equipment	<u>2 042 600</u>	<u>66 654</u>	<u>34 764</u>	<u>2 144 018</u>
Subtotal Depreciable Assets	<u>26 518 259</u>	<u>156 163</u>	<u>217 907</u>	<u>26 892 329</u>
Total at Historical Cost	<u>27 247 843</u>	<u>156 163</u>	<u>217 907</u>	<u>27 621 913</u>
Less Accumulated Depreciation for:				
Buildings & Improvements	7 101 639	696 775	(34 074)	7 764 340
Furniture & Equipment	<u>1 707 646</u>	<u>98 475</u>	<u>170 272</u>	<u>1 976 393</u>
Total Accumulated Depreciation	<u>8 809 285</u>	<u>795 250</u>	<u>136 198</u>	<u>9 740 733</u>
Governmental Activities Capital Assets, Net	<u>\$ 18 438 558</u>	<u>\$ (639 087)</u>	<u>\$ 81 709</u>	<u>\$ 17 881 180</u>

Depreciation expense was charged to governmental functions as follows:

11	Instruction	\$ 607 055
23	School Leadership	3 642
34	Student (Pupil) Transportation	135 824
35	Food Services	0
36	Cocurricular/Extracurricular Activities	19 544
41	General Administration	4 606
51	Plant Maintenance and Operations	14 011
53	Data Processing Services	<u>10 568</u>
	Total Depreciation Expense	<u>\$ 795 250</u>

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

G. BONDS PAYABLE

Bonded indebtedness of the District is reflected in the Long-Term Debt Account Group, and current requirements for principal and interest expenditures are accounted for in the Debt Service Fund.

A summary of changes in bonds payable for the year ended August 31, 2016 is as follows:

Description	Interest Rate Payable	Amounts Original Issue	Amounts Outstanding 9/1/15	Issued	Retired/ Refunded	Amounts Outstanding 8/31/2016	Interest Current Year
Unlimited Tax School Building Bonds Series 2011	1.45% to 2.45%	\$ 8 300 000	\$ 7 380 000	\$ 0	\$ 355 000 4 740 000	\$ 2 285 000	\$ 176 39
Unlimited Tax School Building Bonds Series 2012	.40% to 4.00%	8 996 275	8 741 275	0	90 000	8 651 275	300 74
Unlimited Tax Refunding Bonds Series 2016	2.0% to 3.0%	4 555 000	0	4 555 000	0	4 555 000	24 71
Totals			<u>\$ 16 121 275</u>	<u>\$ 4 555 000</u>	<u>\$ 5 185 000</u>	<u>\$ 15 491 275</u>	<u>\$ 501 85</u>

Debt service requirements are as follows:

Year Ended August 31	General Obligations		
	Principal	Interest	Total Requirements
2017	455 000	463 864	918 864
2018	460 000	456 788	916 788
2019	470 000	448 599	918 599
2020	475 000	439 416	914 416
2021	490 000	428 520	918 520
2022 - 2026	2 610 000	1 930 237	4 540 237
2027 - 2031	2 975 000	1 556 844	4 531 844
2032 - 2036	2 496 275	2 196 500	4 692 775
2037 - 2041	4 130 000	612 600	4 742 600
2042	930 000	18 600	948 600
Totals	<u>\$ 15 491 275</u>	<u>\$ 8 551 968</u>	<u>\$ 24 043 243</u>

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at August 31, 2016.

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

The District defeased certain general obligation bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payment on the old bonds. Accordingly, the trust account asset and liabilities for the defeased bond are not included in the District's financial statements. As of August 31, 2016, \$4,740,000 of bond considered defeased are still outstanding.

On June 1, 2016 the Frankston Independent School District issued \$4,555,000 in Unlimited Tax Refunding Bonds, Series 2016 with interest rates of 2.0% to 3.0%.

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including particularly Chapter 1207, Texas Government Code, as amended, and the order adopted by the Board of Trustees on May 16, 2016. As permitted by the provisions of Chapter 1207, the Board, in the Order, delegated the authority to certain District officials to execute a pricing certificate establishing the pricing terms for the Bonds. The approval Certificate was executed by the Executive Director of Finance of the District on June 1, 2016, which completed the sale of the Bonds. Proceeds from the sale of the Bonds will be used to (i) refund a portion of the District's outstanding bonds for debt service savings and (ii) pay the costs of issuing the Bonds. The debt service savings had been calculated to be \$400,000.

The Refunded Bonds, and interest due thereon, are to be paid on their scheduled redemption date from cash and investments to be deposited with BOKF, NA, Austin, Texas, a national banking association (the "Escrow Agent") pursuant to an Escrow Deposit Letter dated as of May 16, 2016 (the "Escrow Agreement") between the District and the Escrow Agent.

The Order provides that the District will deposit certain proceeds of the sale of the Bonds, along with other lawfully available funds to the District (if any), with the Escrow Agent in the amount necessary and sufficient to accomplish the discharge and final payment of the Refunded Bonds at their scheduled date of early redemption (the Redemption Date). Such funds shall be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Bonds. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor to the District, will certify as to the sufficiency of the amount initially deposited to the Escrow Fund, without regard to investment (if any), to pay the principal of and interest on the Refunded Bonds, when due, on the Redemption Date.

Prior to, or simultaneously with, the issuance of the Bonds, the District will give irrevocable instructions to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Bonds from money held under the Escrow Agreement.

By the deposit of the cash and Federal Securities, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of all the Refunded Bonds in accordance with the law. It is the opinion of Bond Counsel, in reliance upon the Sufficiency Certificate provided by SAMCO Capital Markets, Inc., that as a result of such defeasance the Refunded Bonds will be outstanding only for the purpose of receiving payments from the Escrow Fund held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations to the District payable from taxes nor for the purpose of applying any limitation on the issuance of debt.

The District has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Bonds, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payment.

Defeasance of the Refunded Bonds will cancel the Permanent School Fund Guarantee relating thereto.

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

H. CHANGES IN LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended August 31, 2016, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental Activities:					
Bonds Payable:					
General Obligation Bonds	\$ 16 121 275	\$ 4 555 000	\$ 5 185 000	\$15 491 275	\$ 455 000
Accretion Payable:					
Capital Appreciation Bonds	114 032	34 663		148 695	
Premium (Discount) on Issuance of Bonds:					
Premium	293 075	270 520	15 357	548 238	
 Total Governmental Activities Long-term	 <u>\$ 16 528 382</u>	 <u>\$ 4 860 183</u>	 <u>\$ 5 200 357</u>	 <u>\$16 188 208</u>	 <u>\$ 455 000</u>

I. UNEARNED REVENUE AND UNAVAILABLE REVENUE

Unearned revenue at the fiscal year-end consisted of the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
State Foundation	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____ 0</u>

Unavailable revenue at the fiscal year end consisted of the following:

Net Property Taxes	<u>\$ 364 053</u>	<u>\$ 75 038</u>	<u>\$ _____</u>	<u>\$ 439 091</u>
--------------------	-------------------	------------------	-----------------	-------------------

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

J. FUND BALANCE

Fund Balance is classified as nonspendable, restricted, committed, assigned and/or unassigned. The individual fund balances of the District are:

<u>Fund Balance</u>	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Nonspendable:				
Total Nonspendable	\$ _____	\$ _____	\$ _____	\$ _____
Restricted:				
Federal Grants				
State Grants			1 076	1 076
Debt Service		87 424		87 424
Total Restricted		87 424	1 076	88 500
Committed:				
Construction	1 200 000			1 200 000
Total Committed	1 200 000			1 200 000
Assigned:				
Campus Activity			69 979	69 979
Total Assigned			69 979	69 979
Unassigned	2 153 304			2 153 304
Total Fund Balances	<u>\$ 3 353 304</u>	<u>\$ 87 424</u>	<u>\$ 71 055</u>	<u>\$ 3 511 783</u>

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

K. LOCAL AND INTERMEDIATE SOURCES OF REVENUES

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

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Other Funds</u>	<u>Total</u>
Property Taxes	\$ 2 728 391	\$ 925 748	\$	\$ 3 654 139
Penalties, Interest & Other Tax Related Income	59 413	12 769		72 182
Food Sales			115 694	115 694
Investment Income	12 026	10 324		22 350
Co-curricular Student Activities	20 075		81 505	101 580
Other	<u>82 311</u>		<u>20</u>	<u>82 331</u>
Totals	<u>\$ 2 902 216</u>	<u>\$ 948 841</u>	<u>\$ 197 219</u>	<u>\$ 4 048 276</u>

L. JOINT VENTURE SHARED SERVICE ARRANGEMENT

The District participates in a shared services arrangement for special education services with other school districts. Although a portion of the shared services arrangement is attributable to the District's participation, the District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The District neither has a joint ownership interest in fixed assets purchased by the fiscal agent, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement. The District made payments to the fiscal agent of \$161,287.

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

M. DEFINED BENEFIT PENSION PLAN

Plan Description. The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). 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, TX, 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2014 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2014.

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 159,496,075,886
Less: Plan Fiduciary Net Position	<u>(128,538,706,212)</u>
	<u>\$ 35,348,668,960</u>
Net Position as percentage of Total Pension Liability	78.43%

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

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

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

Employee contribution rates are set in state statute, Texas Government Code 825.402. Senate Bill 1458 of the 83rd Texas Legislature amended Texas Government Code 825.402 for member contributions and established employee contribution rates for fiscal years 2014 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015. The 84th Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

Contribution Rates		
	2014	2015
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Frankston ISD 2016 Employer Contributions	\$	124,684
Frankston ISD 2016 Member Contributions	\$	317,577
Frankston ISD 2015 NECE On-Behalf Contributions	\$	243,643

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 source or a privately sponsored source.

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

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

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

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

Valuation Date	August 31, 2015
Actuarial Cost Method	Individual Entry Age, Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases Including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

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

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

Actuarial Assumptions. The total pension liability in the August 31, 2014 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2014
Actuarial Cost Method	Individual Entry Age, Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 years
Asset Valuation Method	5 year Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Salary Increases *	4.25% to 7.25%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.50%

**Includes Inflation of 3%*

The actuarial methods and assumptions are primarily based on a study of actual experience for the four year period ending August 31, 2010 and adopted on April 8, 2011. With the exception of the postretirement mortality rates for healthy lives and a minor change to the expected retirement age for inactive vested members stemming from the actuarial audit performed in the Summer of 2014, the assumptions and methods are the same as used in the prior valuation. When the mortality assumptions were adopted in 2011 they contained a significant margin for possible future mortality improvement. As of the date of the valuation there has been a significant erosion of this margin to the point that the margin has been eliminated. Therefore, the post-retirement mortality rates for current and future retirees was decreased to add additional margin for future improvement in mortality in accordance with the Actuarial Standards of Practice No. 35.

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

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

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

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

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

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

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
District's proportionate share of the net pension liability:	\$ <u>1,919,689</u>	\$ <u>1,225,220</u>	\$ <u>646,771</u>

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2015, the District reported a liability of \$1,225,220 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	\$ 1,225,220
State's proportionate share that is associated with the District	<u>2,907,732</u>
Total	<u><u>\$ 4,132,752</u></u>

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

At August 31, 2015 the employer's proportion of the collective net pension liability was .0034661%, which was an increase (decrease) of .0016128% from its proportion measured as of August 31, 2014.

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

Economic Assumptions

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

Mortality Assumptions

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

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

Other Demographic Assumptions

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

Actuarial Methods and Policies

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

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

For the year ended August 31, 2015, the District recognized pension expense of \$414,305 and revenue of \$414,305 for support provided by the State.

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

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 6,367	\$ 47,086
Changes in actuarial assumptions	26,761	43,710
Difference between projected and actual investment earnings	188,265	
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	368,554	358
Total as of August 31, 2015 measurement date	589,947	91,154
Contributions paid to TRS subsequent to the measurement date	124,684	
Total as of fiscal year end	\$ 714,631	\$ 91,154

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:

Year ended August 31:	Pension Expense Amount
2017	\$ 91,306
2018	91,306
2019	91,305
2020	129,133
2021	53,296
Thereafter	42,448

Long-Term Liability Disclosure

	Beginning Balance	Additions	Retirements	Ending Balance
Net Pension Liability	\$ 495,042	\$ 832,810	\$ 102,632	\$ 1,225,220

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

N. HEALTH CARE

During the year ended August 31, 2016 employees of the Frankston Independent School District were covered by the state sponsored health insurance plan. The district paid premiums of \$285 per month per employee to the plan and employees, at their option, authorized payroll withholdings to pay premiums for dependents.

All premiums were paid to TRS-ActiveCare, the statewide health coverage program for public education employees administered by Aetna. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement.

The contract between the District and TRS ActiveCare is renewable September 1 of each year and terms of coverage and premium costs are included in the contractual provisions.

Latest financial statements for Aetna are available for the most recent year and have been filed with the Texas State Board of Insurance, Austin, Texas, and are public records.

O. SCHOOL DISTRICT RETIREE HEALTH PLAN

Plan Description

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

Medicare Part D:

Federal Government Retiree Drug Subsidy - Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. On-behalf payments must be recognized as equal revenues and expenditures/expenses by the District. The allocation of these on-behalf payments is based on the ratio of a reporting entity's covered payroll to the entire payroll reported by all reporting entities. The amount allocated on-behalf for the year ended August 31, 2016 is estimated by TRS at \$12,535.

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

P. COMPENSATED ABSENCES

Vacations are to be taken within the same year they are earned, and any unused days at the end of the year are forfeited. Therefore, no liability has been accrued in the accompanying general purpose financial statements. Employees of the District are entitled to sick leave based on category/class of employment. Sick leave is allowed to be accumulated but does not vest. Therefore, a liability for unused sick leave has not been recorded in the accompanying general purpose financial statements.

Upon retirement from the District under the Teacher Retirement System of Texas, an employee who has had at least five years of consecutive employment with the District shall be compensated for unused sick days at a rate of \$20 per day, to a maximum of \$1,000. The accumulated leave benefits at August 31, 2016 were \$4,840 and are accrued as a liability in the General Fund.

Q. SELF-INSURED WORKERS' COMPENSATION

During the year ended August 31, 2016 the Frankston Independent School District was a participant in the East Texas Educational Insurance Association's Workers' Compensation Self-insurance Joint Fund pursuant to Texas Labor Code Annotated Chapter 504 and Texas Government Code Ch. 791 (the Interlocal Cooperation Act).

The Board of Trustees of the plan and the plan supervisor, Claims Administrative Services, Inc., shall establish the proportionate contribution of each participant annually upon the actual loss experience and claims of the District, the experience rating modification of the District, the prorata costs or savings to the plan from the loss experience of all participants, and all reasonable and necessary administrative expenses of the plan. The proportionate contributions of all participants shall be combined into a self-insurance joint fund.

The District paid a fixed cost of \$13,137 to the plan supervisor for administration of claims, loss control, record keeping, and the cost of excess insurance. The loss fund maximum set aside in a separate account for claims not covered by excess insurance was established to be \$40,407 for the fiscal year. The self insurance retention maximum was \$225,000.

During the fiscal year, the District paid net claims of \$23,941 covering twenty-five plan periods ending August 31, 2016, and has accrued \$15,925 as a liability for unpaid claims determined by the claims administrator.

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

R. COMMITMENTS UNDER OPERATING LEASES

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

Year Ended August 31	Total
2017	34 088
2018	34 088
2019	34 088
2020	2 841
Total Minimum Rentals	\$ 105 105
Rental Expenditures in Fiscal Year 2016	\$ 34 088

S. CONSTRUCTION AND OTHER COMMITMENTS AND 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, if any, refunds of any money received may be required and the collectibility of any related receivable at August 31, 2016 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.

T. 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 disaster. During fiscal year 2016 the district purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the past fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

FRANKSTON 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	\$ 3,040,631	\$ 3,040,631	\$ 2,902,216	\$ (138,415)
5800	State Program Revenues	4,298,672	4,298,672	4,636,979	338,307
5020	Total Revenues	7,339,303	7,339,303	7,539,195	199,892
EXPENDITURES:					
Current:					
0011	Instruction	3,874,054	3,867,889	3,875,099	(7,210)
0012	Instructional Resources and Media Services	27,700	27,860	27,982	(122)
0013	Curriculum and Instructional Staff Development	114,040	133,003	132,417	586
0023	School Leadership	424,791	449,763	444,915	4,848
0031	Guidance, Counseling and Evaluation Services	138,375	149,636	147,757	1,879
0033	Health Services	87,830	94,482	90,917	3,565
0034	Student (Pupil) Transportation	181,674	93,003	88,528	4,475
0035	Food Services	5,800	5,800	3,850	1,950
0036	Extracurricular Activities	391,754	528,052	522,354	5,698
0041	General Administration	388,886	389,620	374,512	15,108
0051	Facilities Maintenance and Operations	899,230	941,914	919,353	22,561
0052	Security and Monitoring Services	44,000	45,550	45,541	9
0053	Data Processing Services	179,855	204,770	201,940	2,830
Capital Outlay:					
0081	Facilities Acquisition and Construction	288,329	114,975	114,938	37
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	161,287	161,287	161,287	-
0099	Other Intergovernmental Charges	72,000	72,000	71,499	501
6030	Total Expenditures	7,279,605	7,279,604	7,222,889	56,715
1100	Excess of Revenues Over Expenditures	59,698	59,699	316,306	256,607
OTHER FINANCING SOURCES (USES):					
8911	Transfers Out (Use)	-	-	(24,193)	(24,193)
1200	Net Change in Fund Balances	59,698	59,699	292,113	232,414
0100	Fund Balance - September 1 (Beginning)	3,061,191	3,061,191	3,061,191	-
3000	Fund Balance - August 31 (Ending)	\$ 3,120,889	\$ 3,120,890	\$ 3,353,304	\$ 232,414

FRANKSTON 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 G-2

	<u>2016</u>	<u>2015</u>
District's Proportion of the Net Pension Liability (Asset)	0.0034661%	0.0018533%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 1,225,220	\$ 495,042
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	2,907,732	2,512,646
Total	<u>\$ 4,132,952</u>	<u>\$ 3,007,688</u>
District's Covered-Employee Payroll	\$ 4,171,570	\$ 4,092,956
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	29.37%	12.09%
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."

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

EXHIBIT G-3

	2016	2015
Contractually Required Contribution	\$ 124,684	\$ 104,547
Contribution in Relation to the Contractually Required Contribution	(124,684)	(104,547)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-
District's Covered-Employee Payroll	\$ 4,410,996	\$ 4,171,570
Contributions as a Percentage of Covered-Employee Payroll	2.83%	2.51%

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."

FRANKSTON INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015

Changes of Benefit Terms

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

Changes of Assumptions

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

Economic Assumptions

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

Mortality Assumptions

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

Other Demographic Assumptions

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

Actuarial Methods and Policies

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

COMBINING STATEMENTS

EXHIBIT H-1

255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income	410 State Textbook Fund	429 Literacy Achievement Academies	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ (2,495)	\$ (3,589)	\$ (20,234)	\$ 1,076	\$ 69,979	\$ 18,673
3,553	4,834	20,234	-	-	80,216
<u>\$ 1,058</u>	<u>\$ 1,245</u>	<u>\$ -</u>	<u>\$ 1,076</u>	<u>\$ 69,979</u>	<u>\$ 98,889</u>
\$ 1,058	\$ 1,245	\$ -	\$ -	\$ -	\$ 27,834
<u>1,058</u>	<u>1,245</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>27,834</u>
-	-	-	1,076	-	1,076
-	-	-	-	69,979	69,979
-	-	-	1,076	69,979	71,055
<u>\$ 1,058</u>	<u>\$ 1,245</u>	<u>\$ -</u>	<u>\$ 1,076</u>	<u>\$ 69,979</u>	<u>\$ 98,889</u>

255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income	410 State Textbook Fund	429 Literacy Achievement Academies	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 81,505	\$ 197,219
-	-	61,908	1,050	-	65,196
33,342	13,739	-	-	-	575,215
33,342	13,739	61,908	1,050	81,505	837,630
33,342	13,739	23,599	-	-	224,506
-	-	-	-	-	72,644
-	-	-	-	-	443,809
-	-	-	-	116,152	116,152
-	-	38,793	-	-	38,793
33,342	13,739	62,392	-	116,152	895,904
-	-	(484)	1,050	(34,647)	(58,274)
-	-	-	-	-	24,193
-	-	(484)	1,050	(34,647)	(34,081)
-	-	484	26	104,626	105,136
\$ -	\$ -	\$ -	\$ 1,076	\$ 69,979	\$ 71,055

REQUIRED TEA SCHEDULES

(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
\$ 53,556	\$ -	\$ 2,330	\$ -	\$ (11,513)	\$ 39,713
11,666	-	882	-	(981)	9,803
17,954	-	869	-	(1,312)	15,773
22,601	-	1,342	-	(986)	20,273
28,179	-	3,201	-	(1,329)	23,649
38,486	-	4,840	-	(1,661)	31,985
52,555	-	5,143	2,126	(2,228)	43,058
79,248	-	15,967	4,094	(2,117)	57,070
136,461	-	41,984	12,918	(3,086)	78,473
-	3,717,092	2,651,833	906,610	(16,245)	142,404
<u>\$ 440,706</u>	<u>\$ 3,717,092</u>	<u>\$ 2,728,391</u>	<u>\$ 925,748</u>	<u>\$ (41,458)</u>	<u>\$ 462,201</u>

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 FUND BALANCE AND CASH FLOW CALCULATION WORKSHEET
 GENERAL FUND AS OF AUGUST 31, 2016

EXHIBIT J-3

UNAUDITED

1	Total General Fund Balance as of 8/31/16 (Exhibit C-1 object 3000 for the General Fund Only)		\$ 3,353,304
2	Total Non-Spendable Fund Balance (from Exhibit C-1 - for the General Fund Only)	\$ -	
3	Total Restricted Fund Balance (from Exhibit C-1 - for the General Fund Only)	-	
4	Total Committed Fund Balance (from Exhibit C-1 - for the General Fund Only)	1,200,000	
5	Total Assigned Fund Balance (from Exhibit C-1 - for the General Fund Only)	-	
6	Estimated amount needed to cover fall cash flow deficits in the General Fund (Net of borrowed funds and funds representing deferred revenues.)	100,000	
7	Estimate of two month's average cash disbursements during the fiscal year.	1,485,275	
8	Estimate of delayed payments from state sources (58xx).	-	
9	Estimate of underpayment from state sources equal to variance between Legislative Payment Estimate (LPE) and District Planning Estimate (DPE) or District's calculated earned state aid amount.	128,344	
10	Estimate of delayed payments from federal sources (59xx)	59,982	
11	Estimate of expenditures to be reimbursed to General Fund from Capital Projects Fund (uses of General Fund cash after bond referendum and prior to issuance of bonds)	-	
12	Optimum Fund Balance and Cash Flow (Lines 2+3+4+5+6+7+8+9+10+11)		2,973,601
13	Excess (Deficit) Unassigned Fund Balance (Line 1 minus Line 12)		\$ 379,703

Explanation of need for and/or projected use of net positive Unassigned General Fund Fund Balance:

The fund balance may be used for future capital needs.

FRANKSTON INDEPENDENT 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	\$ 135,000	\$ 135,000	\$ 115,714	\$ (19,286)
5800 State Program Revenues	2,300	2,300	2,238	(62)
5900 Federal Program Revenues	277,000	277,000	295,947	18,947
5020 Total Revenues	414,300	414,300	413,899	(401)
EXPENDITURES:				
0035 Food Services	465,999	465,999	438,092	27,907
6030 Total Expenditures	465,999	465,999	438,092	27,907
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(51,699)	(51,699)	(24,193)	27,506
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	-	-	24,193	24,193
1200 Net Change in Fund Balances	(51,699)	(51,699)	-	51,699
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ (51,699)	\$ (51,699)	\$ -	\$ 51,699

FRANKSTON 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	\$ 925,200	\$ 925,200	\$ 948,841	\$ 23,641
5800	State Program Revenues	-	-	53,729	53,729
5020	Total Revenues	925,200	925,200	1,002,570	77,370
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	445,000	445,000	445,000	-
0072	Interest on Long Term Debt	502,041	502,041	501,857	184
0073	Bond Issuance Cost and Fees	1,200	1,200	1,200	-
6030	Total Expenditures	948,241	948,241	948,057	184
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(23,041)	(23,041)	54,513	77,554
OTHER FINANCING SOURCES (USES):					
7911	Capital Related Debt Issued (Regular Bonds)	-	-	4,555,000	4,555,000
7915	Transfers In	23,032	23,032	-	(23,032)
7916	Premium or Discount on Issuance of Bonds	-	-	270,520	270,520
8949	Other (Uses)	-	-	(4,824,090)	(4,824,090)
7080	Total Other Financing Sources (Uses)	23,032	23,032	1,430	(21,602)
1200	Net Change in Fund Balances	(9)	(9)	55,943	55,952
0100	Fund Balance - September 1 (Beginning)	31,481	31,481	31,481	-
3000	Fund Balance - August 31 (Ending)	\$ 31,472	\$ 31,472	\$ 87,424	\$ 55,952

COMPLIANCE, INTERNAL CONTROL AND FEDERAL AWARDS

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA
J. W. Lambright, CPA

Cheri E. Kirkland, CPA
David N. Hopkins, CPA

P. O. Box 912
505 E. Tyler
Athens, Texas 75751
(903) 675-5674
FAX (903) 675-5676
smithlambright.com

**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***

Independent Auditor's Report

Board of School Trustees
Frankston Independent School District
P. O. Box 428
Frankston, Texas 75763

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 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 January 17, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the 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 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 our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Respectfully submitted,

Smith, Lambright & Associates, P.C.

SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants
Athens, Texas

January 17, 2017

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

I. Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	_____ yes <u> X </u> no
• Significant deficiency(ies) 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:

Internal control over major programs:	N/A
• Material weakness(es) identified?	_____ yes _____ no
• Significant deficiency(ies) identified that are not considered to be material weaknesses?	_____ yes _____ none reported
Type of auditor's report issued on compliance for major programs:	N/A
Any audit findings disclosed that are required to be reported in accordance with Title 2 CFR 200.516(a)	_____ yes _____ no
Identification of major programs:	N/A
Dollar threshold used to distinguish between Type A and Type B programs:	\$ 750,000
Auditee qualified as low risk auditee?	<u> X </u> yes _____ no

District Contact Person	John Allen Superintendent
-------------------------	------------------------------

FRANKSTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
FOR THE YEAR ENDED AUGUST 31, 2016

II. Financial Statement Findings

The audit disclosed no finding required to be reported.

III. Federal Awards Findings and Questioned Costs

The audit disclosed no finding required to be reported.

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

N/A

FRANKSTON INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2016

N/A

FRANKSTON INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2016

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	16-610101001904	\$ 131,621
ESEA, Title I, Part A - Improving Basic Programs	84.010A	17-610101001904	6,955
Total CFDA Number 84.010A			138,576
*IDEA - Part B, Formula	84.027	16-660001001902	81,837
*IDEA - Part B, Formula	84.027	17-660001001902	6,057
Total CFDA Number 84.027			87,894
Total Special Education Cluster (IDEA)			87,894
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	16-696001001904	12,494
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	17-696001001904	1,245
Total CFDA Number 84.358B			13,739
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	16-694501001904	32,284
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	17-694501001904	1,058
Total CFDA Number 84.367A			33,342
Total Passed Through State Department of Education			\$ 273,551
TOTAL U.S. DEPARTMENT OF EDUCATION			\$ 273,551
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
**School Breakfast Program	10.553		\$ 76,905
**National School Lunch Program-Cash Assistance	10.555		191,500
**National School Lunch Prog.-Non-Cash Assistance	10.555		27,542
Total CFDA Number 10.555			219,042
**Summer Feeding Program - Cash Assistance	10.559		5,717
Total Child Nutrition Cluster			301,664
Total Passed Through the State Department of Agriculture			\$ 301,664
TOTAL U.S. DEPARTMENT OF AGRICULTURE			\$ 301,664
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 575,215

*Clustered Programs

**Clustered Programs

FRANKSTON INDEPENDENT SCHOOL DISTRICT
 NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 FOR THE YEAR ENDED AUGUST 31, 2016

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

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

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

- The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions of the Period of Availability of Federal Funds.
- The National School Breakfast and Lunch Programs and the USDA donated commodities are accounted for in the nonmajor governmental funds. The Impact Aid, if any, is accounted for in the General Fund. Expenditures are not specifically attributable to these revenue sources and are shown on this schedule in an amount equal to revenue for balancing purposes only. The revenue for indirect costs is recognized in the General Fund.
- The expenditures shown on the Schedule of Expenditures of Federal Awards (SEFA) does not equal to total federal revenues shown on Exhibit C-3 by the amount of federal revenue recorded in various funds as shown below. These amounts are not subject to the Single Audit Act and are not required to be included in the SEFA.

Amount reported on the Schedule of Expenditures of Federal Awards \$	575 215
--	---------

Federal Program Revenue Reported on Exhibit C-3	\$ 575 215
---	------------

SMITH, LAMBRIGHT & ASSOCIATES, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Marlin R. Smith, CPA
J. W. Lambright, CPA

Cheri E. Kirkland, CPA
David N. Hopkins, CPA

P. O. Box 91
505 E. Tyle
Athens, Texas 7575
(903) 675-5674
FAX (903) 675-5674
smithlambright.com

COMMUNICATION WITH THOSE CHARGED WITH GOVERNANCE

Board of School Trustees
Frankston Independent School District
PO Box 428
Frankston, Texas 75751

Members of the Board:

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the District for the year ended August 31, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and, when applicable, *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated August 1, 2016. Professional standards also require that we communicate to you the following information related to our audit.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the District are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most significant estimates affecting the financial statements were:

Managements estimate of the uncollectible accounts and accumulated depreciation. We evaluated the key factors and assumptions used to develop these estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing and completing our audit.

Audit Differences and Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Supplementary Information

We applied certain limited procedures to required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance of the RSI.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statement themselves.

General Audit Comments, Findings or Issues

In connection with the annual audit of the records of the Frankston Independent School District as of August 31, 2016, we offer the following additional comments:

1. Accounting Records:

The accounting records are very good and are in compliance with the requirements of the TEA Resource Guide. Normal adjusting entries were made during the audit process for reclassifications and corrections. The accounting records and supporting documentation adequately support the representations made in the financial statements.

The bank reconciliation for the operating account had not been fully reconciled at the beginning of the audit, but was completed by the District staff during the audit.

2. Fund Balance:

The fund balance in the general fund at August 31 was \$3,353,304, which was an increase of \$292,113 from the prior year. The fund balance of the debt service fund was \$87,424.

This information is intended solely for the use of those charged with governance, including the audit committee, Board of Trustees and management, and is not intended to be, and should not be, used by anyone other than these specified parties.

Respectfully submitted,

Smith, Lambright & Associates, P.C.

SMITH, LAMBRIGHT & ASSOCIATES, P. C.
Certified Public Accountants

January 17, 2017