

**WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT**

*ANNUAL FINANCIAL AND COMPLIANCE REPORT*

*FOR THE YEAR ENDED AUGUST 31, 2017*

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**WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT**  
**ANNUAL FINANCIAL AND COMPLIANCE REPORT**  
**FOR THE YEAR ENDED AUGUST 31, 2017**

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*CERTIFICATE OF BOARD*

Walnut Springs Independent School District  
Name of School District

Bosque  
County

018-905  
Co.-Dist. Number

We, the undersigned, certify that the attached auditor's reports of the above named school district were reviewed and \_\_\_approved  
- \_\_\_disapproved for the year ended August 31, 2017, at a meeting of the board of school trustees of such school district on the  
\_\_\_ day of \_\_\_\_\_, 2018.

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

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

If the auditor's reports were checked above as disapproved, the reason(s) therefore is/are (attach list if necessary):

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## Independent Auditor's Report

### UNMODIFIED OPINION ON BASIC FINANCIAL STATEMENTS ACCOMPANIED BY REQUIRED SUPPLEMENTARY INFORMATION AND OTHER INFORMATION

Board of Trustees  
Walnut Springs Independent School District  
P.O. Box 63  
Walnut Springs, Texas 76690

#### Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information for Walnut Springs Independent School District (the "District") as of and for the year ended August 31, 2017, 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*

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my 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 I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. 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. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

#### *Opinions*

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Walnut Springs Independent School District as of August 31, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with account 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, the Budgetary Comparison Schedule for the General Fund, Schedule of District's Proportionate Share of the Net Pension Liability (TRS) and Schedule of District Contributions to TRS as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedure 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

My audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining and individual nonmajor fund financial statements and the TEA required schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the TEA required schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the combining and individual nonmajor fund financial statements and the TEA required schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The combining and individual nonmajor fund financial statements and the TEA required schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, I do not express an opinion or provide any assurance on them.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, I have also issued my report dated December 5, 2017, on my consideration of the District's internal control over financial reporting and on my 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 my 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.

Cameron L. Gulley  
Certified Public Accountant

Janiary 10, 2018



# WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT

JOE HERRING, BOARD PRESIDENT

PO Box 63

PAT GARRETT, SUPERINTENDENT

SHERYL MASSART, BOARD VICE-PRESIDENT

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Walnut Springs Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2017. Please read it in conjunction with the independent auditor's report on page 2 and the District's Basic Financial Statements which begin on page 10.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 and 11). 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.

Fund financial statements (starting on page 12) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the District.

The notes to the financial statements (starting on page 17) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

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

### Reporting the District as a Whole

#### *The Statement of Net Position and the Statement of Activities*

The analysis of the District's overall financial condition and operations begins on page 5. Its primary purpose is to show whether the District is better off or worse off as a result of the year's 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 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 or future years.

These two statements report the District's net position and changes in them. The District's net position (the difference between assets and liabilities) provide one measure of the District's financial health, or financial position. Over time, increases or

decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

In the Statement of Net Position and the Statement of Activities, we divide the District into one activity:

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

## **Reporting the District's Most Significant Funds**

### ***Fund Financial Statements***

The fund financial statements begin on page 12 and provide detailed information about the most significant funds - not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under 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 (like campus activities). The District's one type of fund - governmental - uses the following accounting approach:

Governmental funds - All of the District's basic services are reported in governmental funds. These use the 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 schedules 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. All of the District's fiduciary activities are reported in a separate Statement of Fiduciary Net Position on page 16. 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**

The following analyses of comparative balances and changes therein is inclusive of the current year's and prior year's operations. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental and business-type activities.

Total net position of the District's governmental activities decreased from \$1,882,081 to \$1,847,605. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - decreased from \$680,755 to \$672,141 due to the operating deficits for the year. Current and other assets (consisting of cash and receivables) increased by \$27,185. Capital assets decreased by \$116,275 due to depreciation expense. Long-term liabilities decreased by \$2,488 due to changes in unfunded net pension obligations offset by reductions in long-term debt. Other liabilities decreased by \$14,406 due to changes in ending accrued payroll liabilities. Deferred resource outflows related to TRS net pension liabilities increased by \$35,707 and deferred resource inflows related to TRS net pension liabilities decreased by \$2,013.

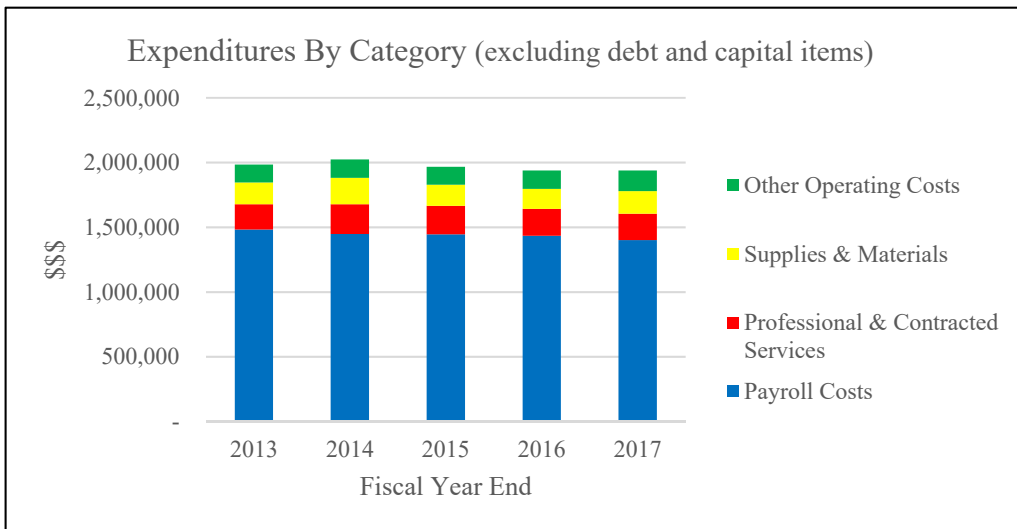
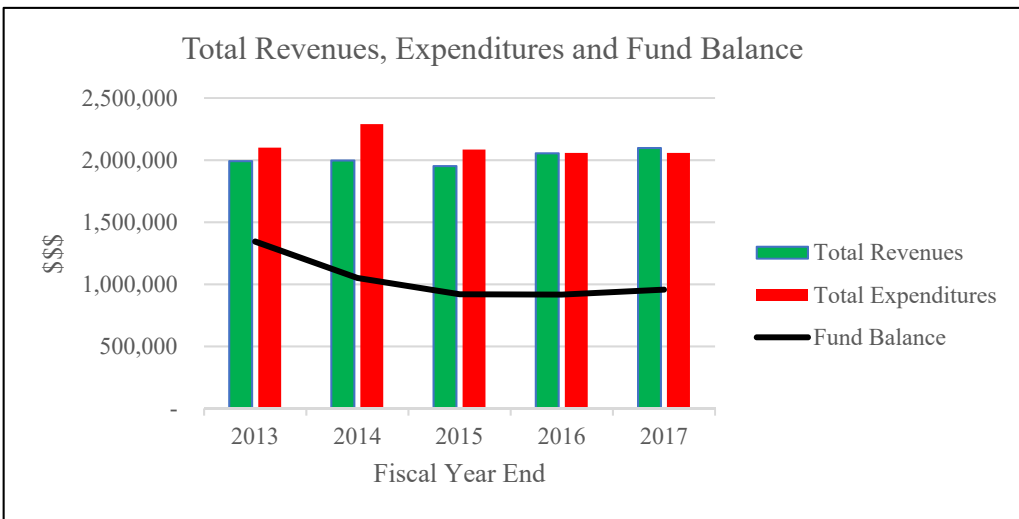
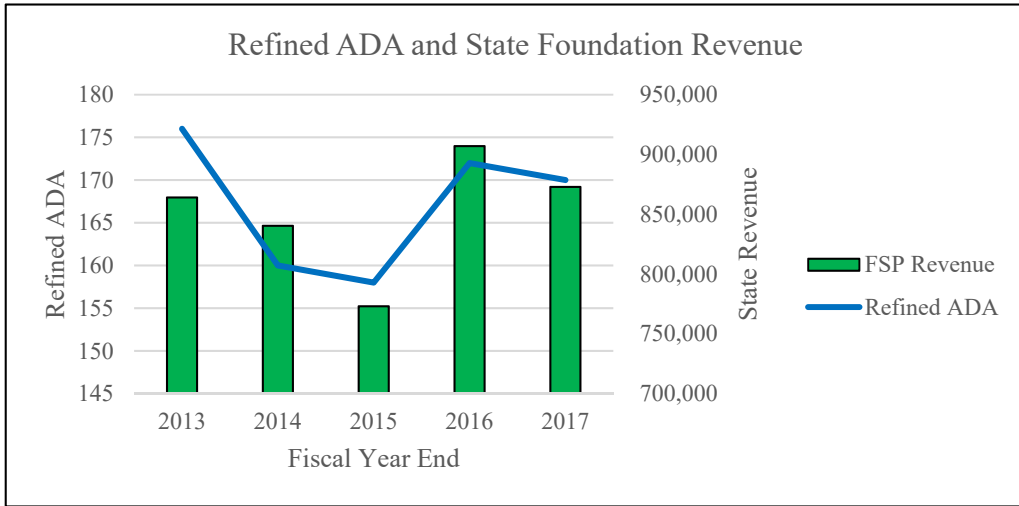
The District's total revenues were \$3,366 more than last year. State aid-formula grant revenues decreased by \$14,494 due to declines in enrollment. Property tax revenues were \$32,893 more than last year due to higher tax valuations for the year. Other revenues were comparable to last year.

Total expenses were \$15,902 less than last year. Decreases in instruction and student support services were related to reduced payroll costs. Increases in general administration were also related to changes in payroll costs for the year. Increased member payments related to special education shared service arrangement fees caused the net increase in payments related to shared service arrangements. Other expenses were comparable to last fiscal year.

	Governmental Activities 2017	Governmental Activities 2016	Variance Increase/ (Decrease)
Current and other assets	\$ 1,048,189	\$ 1,021,004	\$ 27,185
Capital assets	1,577,297	1,693,572	(116,275)
Deferred resource outflows for TRS	214,834	179,127	35,707
Total assets and deferred resource outflows	2,840,320	2,893,703	(53,383)
Long-term liabilities	908,338	910,826	(2,488)
Other liabilities	55,066	69,472	(14,406)
Deferred resource inflows for TRS	29,311	31,324	(2,013)
Total liabilities and deferred resource inflows	992,715	1,011,622	(18,907)
Net position:			
Net investment in capital assets	1,175,464	1,201,326	(25,862)
Unrestricted	672,141	680,755	(8,614)
Total net position	\$ 1,847,605	\$ 1,882,081	\$ (34,476)

Revenues:			
Program Revenues:			
Charges for services	\$ 38,502	\$ 37,360	\$ 1,142
Operating grants and contributions	342,958	364,200	(21,242)
General Revenues:			
Property taxes	742,965	710,072	32,893
State aid - formula grants	977,135	991,629	(14,494)
Other	7,793	2,726	5,067
Total Revenues	2,109,353	2,105,987	3,366
Expenses:			
Instruction, curriculum and media services	1,153,261	1,177,115	(23,854)
Instructional and school leadership	120,723	119,934	789
Student support services	84,361	103,099	(18,738)
Child nutrition	156,348	150,926	5,422
Extracurricular activities	93,658	94,403	(745)
General administration	187,170	172,608	14,562
Plant maintenance, security & data processing	197,950	200,580	(2,630)
Debt service	28,437	32,886	(4,449)
Payments related to shared service arrangements	106,202	93,099	13,103
Other intergovernmental charges	15,719	15,081	638
Total Expenses	2,143,829	2,159,731	(15,902)
Increase (Decrease) in Net Position	(34,476)	(53,744)	19,268
Net Position - beginning of year	1,882,081	1,935,825	(53,744)
Prior period adjustment	0	0	0
Net Position - end of year	\$ 1,847,605	\$ 1,882,081	\$ (34,476)

The following charts depict trend information for the past five years.



**THE DISTRICT’S FUNDS**

As the District completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$957,563, an increase of \$40,590 in the District’s Governmental Funds from last year’s fund balance of \$916,973. The primary reasons for the net increase are similar to the narrative related to the tables above. The major exceptions are depreciation expense which is not charged to the governmental funds and the net effect relative to GASB 68 whose impact is only at the government-wide level financial statements. The specific variances in the changes in fund balance versus the change in net position are detailed out on Exhibit C-4 on the accompanying general purpose financial statements.

The Board of Trustees revised the District’s budget only a few times during the year. There were no significant budget amendments for the year.

The District’s General Fund balance of \$957,563 reported on pages 14 and 34 differs from the General Fund’s budgetary fund balance of \$916,973 reported in the budgetary comparison schedule on page 34 due to both revenues and expenditures being more favorable than budgeted.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

*Capital Assets*

At the end of fiscal year 2017, the District had \$3,889,894 invested in a broad range of capital assets including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. There were no asset additions during the year.

*Debt*

At year-end, the District had one outstanding long-term liability in the form of a capital lease that was obtained in order to finance the construction of building additions and improvements. The District retired \$90,000 in principal (and \$26,950 in interest) on the capital lease from a balance of \$490,000 to an ending balance of \$400,000. Annual payments due until 2021 will approximate \$116,000 until fully retired. Following is remaining outstanding debt compared to last year:

Type of Debt	2017	2016
Lease revenue bonds, series 2001	\$ 400,000	\$ 490,000

**ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES**

The District should continue to maintain its financial health. A budget adopted for 2017-18 reflected tax rates at \$0.9399 for maintenance and operations. General fund revenues and expenditures were budgeted at approximately \$1.97 million for a projected break-even budget. Therefore, the District expects that its fund balance will be remain at approximately \$0.95 million at August 31, 2018.

**CONTACTING THE DISTRICT’S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors a general overview of the District’s finances and to show the District’s accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District’s business office at: Walnut Springs Independent School District, P.O. Box 63, Walnut Springs, Texas 76690.

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*BASIC FINANCIAL STATEMENTS*

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WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF NET POSITION  
AUGUST 31, 2017

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
<b>ASSETS</b>	
1110 Cash and Cash Equivalents	\$ 819,945
1220 Property Taxes Receivable (Delinquent)	62,021
1230 Allowance for Uncollectible Taxes	(24,628)
1240 Due from Other Governments	188,403
1290 Other Receivables, net	256
1410 Prepayments	2,192
Capital Assets:	
1510 Land	55,366
1520 Buildings, Net	1,434,870
1530 Furniture and Equipment, Net	87,061
1000 Total Assets	2,625,486
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
1705 Deferred Outflow Related to TRS	214,834
1700 Total Deferred Outflows of Resources	214,834
<b>LIABILITIES</b>	
2110 Accounts Payable	6,952
2140 Interest Payable	1,833
2160 Accrued Wages Payable	45,229
2200 Accrued Expenses	1,052
Noncurrent Liabilities	
2501 Due Within One Year	90,000
2502 Due in More Than One Year	310,000
2540 Net Pension Liability (District's Share)	508,338
2000 Total Liabilities	963,404
<b>DEFERRED INFLOWS OF RESOURCES</b>	
2605 Deferred Inflow Related to TRS	29,311
2600 Total Deferred Inflows of Resources	29,311
<b>NET POSITION</b>	
3200 Net Investment in Capital Assets	1,175,464
3900 Unrestricted	672,141
3000 Total Net Position	\$ 1,847,605

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

WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
Codes	Expenses	3 Charges for Services	4 Operating Grants and Contributions	6 Primary Gov. Governmental Activities
<b>Primary Government:</b>				
<b>GOVERNMENTAL ACTIVITIES:</b>				
11 Instruction	\$ 1,120,526	\$ -	\$ 181,271	\$ (939,255)
12 Instructional Resources and Media Services	25,774	-	2,709	(23,065)
13 Curriculum and Staff Development	6,961	-	5,721	(1,240)
23 School Leadership	120,723	-	6,911	(113,812)
31 Guidance, Counseling and Evaluation Services	26,968	-	2,397	(24,571)
33 Health Services	7,532	-	7,200	(332)
34 Student (Pupil) Transportation	49,861	-	806	(49,055)
35 Food Services	156,348	12,109	120,955	(23,284)
36 Extracurricular Activities	93,658	26,392	3,899	(63,367)
41 General Administration	187,170	-	8,271	(178,899)
51 Facilities Maintenance and Operations	167,934	1	2,818	(165,115)
53 Data Processing Services	30,016	-	-	(30,016)
72 Debt Service - Interest on Long Term Debt	26,537	-	-	(26,537)
73 Debt Service - Bond Issuance Cost and Fees	1,900	-	-	(1,900)
93 Payments related to Shared Services Arrangements	106,202	-	-	(106,202)
99 Other Intergovernmental Charges	15,719	-	-	(15,719)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 2,143,829	\$ 38,502	\$ 342,958	(1,762,369)

Data Control Codes	General Revenues:	
	Taxes:	
MT	Property Taxes, Levied for General Purposes	742,965
SF	State Aid - Formula Grants	977,135
IE	Investment Earnings	6,066
MI	Miscellaneous Local and Intermediate Revenue	1,002
FR	Gain (Loss) on Sale of Assets	725
TR	Total General Revenues & Transfers	1,727,893
CN	Change in Net Position	(34,476)
NB	Net Position - Beginning	1,882,081
NE	Net Position--Ending	\$ 1,847,605

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

WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AUGUST 31, 2017

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
<b>ASSETS</b>			
1110 Cash and Cash Equivalents	\$ 818,237	\$ 1,708	\$ 819,945
1220 Property Taxes - Delinquent	62,021	-	62,021
1230 Allowance for Uncollectible Taxes (Credit)	(24,628)	-	(24,628)
1240 Receivables from Other Governments	163,081	25,322	188,403
1260 Due from Other Funds	20,468	-	20,468
1290 Other Receivables	256	-	256
1410 Prepayments	2,002	190	2,192
1000 Total Assets	<u>\$ 1,041,437</u>	<u>\$ 27,220</u>	<u>\$ 1,068,657</u>
<b>LIABILITIES</b>			
2110 Accounts Payable	\$ 4,899	\$ 2,053	\$ 6,952
2160 Accrued Wages Payable	40,793	4,436	45,229
2170 Due to Other Funds	-	20,468	20,468
2200 Accrued Expenditures	789	263	1,052
2000 Total Liabilities	<u>46,481</u>	<u>27,220</u>	<u>73,701</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
2601 Unavailable Revenue - Property Taxes	37,393	-	37,393
2600 Total Deferred Inflows of Resources	<u>37,393</u>	<u>-</u>	<u>37,393</u>
<b>FUND BALANCES</b>			
Nonspendable Fund Balance:			
3430 Prepaid Items	2,002	-	2,002
Committed Fund Balance:			
3510 Construction	730,000	-	730,000
3600 Unassigned Fund Balance	225,561	-	225,561
3000 Total Fund Balances	<u>957,563</u>	<u>-</u>	<u>957,563</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,041,437</u>	<u>\$ 27,220</u>	<u>\$ 1,068,657</u>

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

WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
STATEMENT OF NET POSITION  
AUGUST 31, 2017

<b>Total Fund Balances - Governmental Funds</b>	\$	957,563
<b>1</b> 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 \$3,889,894 and the accumulated depreciation was (\$2,312,597). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to increase net position.		1,203,572
<b>2</b> 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 capital outlays and debt principal payments is to increase net position.		90,000
<b>3</b> 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. The net position related to TRS included a deferred resource outflow in the amount of \$214,834, a deferred resource inflow in the amount of \$29,311 and a net pension liability in the amount of \$508,338. This resulted in a decrease in net position.		(322,815)
<b>4</b> Depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(116,275)
<b>5</b> 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 and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		35,560
<b>19 Net Position of Governmental Activities</b>	\$	1,847,605

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

WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds	
REVENUES:				
5700	Total Local and Intermediate Sources	\$ 776,036	\$ 12,469	\$ 788,505
5800	State Program Revenues	1,039,237	13,249	1,052,486
5900	Federal Program Revenues	22,209	233,897	256,106
5020	Total Revenues	<u>1,837,482</u>	<u>259,615</u>	<u>2,097,097</u>
EXPENDITURES:				
Current:				
0011	Instruction	879,126	113,151	992,277
0012	Instructional Resources and Media Services	24,135	803	24,938
0013	Curriculum and Instructional Staff Development	1,240	5,721	6,961
0023	School Leadership	115,704	-	115,704
0031	Guidance, Counseling and Evaluation Services	25,941	-	25,941
0033	Health Services	332	7,200	7,532
0034	Student (Pupil) Transportation	30,688	-	30,688
0035	Food Services	-	150,961	150,961
0036	Extracurricular Activities	87,800	-	87,800
0041	General Administration	180,550	-	180,550
0051	Facilities Maintenance and Operations	163,093	-	163,093
0053	Data Processing Services	30,016	-	30,016
Debt Service:				
0071	Principal on Long Term Debt	90,000	-	90,000
0072	Interest on Long Term Debt	26,950	-	26,950
0073	Bond Issuance Cost and Fees	1,900	-	1,900
Intergovernmental:				
0093	Payments to Fiscal Agent/Member Districts of SSA	106,202	-	106,202
0099	Other Intergovernmental Charges	15,719	-	15,719
6030	Total Expenditures	<u>1,779,396</u>	<u>277,836</u>	<u>2,057,232</u>
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>58,086</u>	<u>(18,221)</u>	<u>39,865</u>
OTHER FINANCING SOURCES (USES):				
7912	Sale of Real and Personal Property	725	-	725
7915	Transfers In	-	18,221	18,221
8911	Transfers Out (Use)	(18,221)	-	(18,221)
7080	Total Other Financing Sources (Uses)	<u>(17,496)</u>	<u>18,221</u>	<u>725</u>
1200	Net Change in Fund Balances	40,590	-	40,590
0100	Fund Balance - September 1 (Beginning)	<u>916,973</u>	<u>-</u>	<u>916,973</u>
3000	Fund Balance - August 31 (Ending)	<u>\$ 957,563</u>	<u>\$ -</u>	<u>\$ 957,563</u>

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

WALNUT SPRINGS 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, 2017

<b>Total Net Change in Fund Balances - Governmental Funds</b>	\$	40,590
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 capital outlays and debt principal payments is to increase net position.		90,000
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.		(116,275)
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 and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		1,001
GASB 68 required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$33,448. Contributions made before the measurement date and during the previous fiscal year were also expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$42,741. Finally, the 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 by \$40,499. The net result is a decrease in the change in net position.		(49,792)
<b>Change in Net Position of Governmental Activities</b>	<b>\$</b>	<b>(34,476)</b>

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

WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
AUGUST 31, 2017

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EXHIBIT E-1

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	Agency Fund
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ASSETS	
Cash and Cash Equivalents	\$ 9,176
Total Assets	<u>\$ 9,176</u>
LIABILITIES	
Due to Student Groups	\$ 9,176
Total Liabilities	<u>\$ 9,176</u>

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

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**WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*AT AND FOR THE YEAR ENDED AUGUST 31, 2017*

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Walnut Springs 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 (GAAP) promulgated by the Governmental Accounting Standards Board (GASB) and other authoritative sources identified in **GASB Statement No. 76**, 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.

The District applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

**A. REPORTING ENTITY**

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

The District formed the Walnut Springs ISD Public Facility Corporation (the "Corporation") on November 19, 2001. The corporation's purpose is to issue lease revenue bonds totaling \$1,395,000 for the construction of a public schoolhouse facility for the District. Immediately upon sale of the bonds on January 15, 2002, the Corporation entered into a lease-purchase agreement with the District for the building to be constructed with the bond proceeds. The District controls the activities of the Corporation as all members on the Board of the District are appointed as officers and directors of the Corporation. As such, the Corporation qualifies as a component unit defined by GASB Statement No. 14 and is included as a blended unit in the District's financial statements as part of the District's General Fund.

**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. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the district, school lunch charges, etc. The "grants and contributions" column 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.

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

The fund financial statements provide reports on the financial condition and results of operations for three fund categories - governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used for District operations, they are not included in the government-wide statements. The District considers some governmental 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 result from providing goods and services in connection with a proprietary fund's principal ongoing operations; they usually come from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating.

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

The government-wide financial statements use the economic resources measurement focus and the accrual basis of accounting. 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.

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

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

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

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

#### D. FUND ACCOUNTING

The District reports the following major governmental funds:

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

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

Governmental Funds:

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.

Fiduciary Funds:

3. **Agency Funds.** The District accounts for resources held for others in a custodial capacity in agency funds. The District's Agency Fund is the "Walnut Springs Student Activity Fund."

#### E. OTHER ACCOUNTING POLICIES

1. For purposes of the statement of cash flows for proprietary funds, the District considers highly liquid investments to be cash equivalents if they have a maturity of three months or less when purchased.
2. The District reports inventories of supplies at weighted average cost including consumable maintenance, instructional, office, athletic, and transportation items. Supplies are recorded as expenditures when they are consumed. Inventories of food commodities are recorded at market values supplied by the Texas Department of Human Services. Although commodities are received at no cost, their fair market value is supplied by the Texas Department of Human Services and recorded as inventory and unearned revenue when received. When requisitioned, inventory and unearned revenue are relieved, expenditures are charged, and revenue is recognized for an equal amount.
3. In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. 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.

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.

4. It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the district. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.
5. Capital assets, which include land, buildings, furniture and equipment are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the District as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

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

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

<u>Asset:</u>	<u>Years</u>
Buildings	15-30
Building Improvements	15-30
Vehicles	5-10
Equipment	3-10

6. In the fund financial statements, governmental funds report fund balance as nonspendable if the amounts cannot be spent because they are either not in spendable form or are legally or contractually required to remain intact. Restrictions of fund balance are for amounts that are restricted to specific purposes by an external entity (creditors, grantors, governmental regulations) or the restriction is imposed by law through constitutional provision or enabling legislation. Commitments of fund balance represent amounts that can only be used for specific purposes pursuant to constraints imposed by the District's board. Assignments of fund balance are amounts set aside by the District's superintendent or his designee with the intent they be used for specific purposes.
7. When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first whenever they will have to be returned if they are not used.
8. In general governments are required to report investments at fair value. These methods are disclosed in section III.A. below.
9. In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. Items reported as deferred outflows of resources are described in section III.I. below.
10. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The District has one type of item which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government wide statement of net position. Items reported as deferred inflows of resources are described in section III.I. below.
11. 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.

## II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

### A. BUDGETARY DATA

The Board of Trustees adopts an "appropriated budget" for the General Fund and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 in RSI and the other report is in Exhibit J4.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose 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 made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. (However, none of these were significant.)
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

**B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

None.

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. CASH, CASH EQUIVALENTS AND INVESTMENTS**

**Cash and Cash Equivalents**

District Policies and Legal and Contractual Provisions Governing Deposits

Custodial Credit Risk for Deposits. State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the district complies with this law, it has no custodial credit risk for deposits. The District was not exposed to custodial credit risk.

Foreign Currency Risk. The District limits the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit by having no deposits denominated in a foreign currency. Therefore, the District was not exposed to foreign currency risk.

As of August 31, 2017, the following are the District's cash and cash equivalents with respective maturities and credit rating:

Type of Deposit	Fair Value	Percent	Maturity < 1 Yr	Maturity 1-10 Yrs	Maturity > 10 Yrs	Credit Rating
Cash:						
Money market and FDIC insured accounts	\$ 358,316	43.2%	\$ 358,316			N/A
Investment pools	470,805	56.8%	470,805			AAA
Total Cash and Cash Equivalents	<u>\$ 829,121</u>	<u>100%</u>	<u>\$ 829,121</u>			

**Investments**

District Policies and Legal and Contractual Provisions Governing Investments

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act**(Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires a governmental entity to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments,

(7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

Statutes authorize the entity to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or secured certificates of deposit issued by state and national banks domiciled in Texas; (3) obligations of states, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) No load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements; (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and is fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the entity to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

Additional policies and contractual provisions governing investments for the District are specified below:

*Credit Risk.* To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in corporate bonds and mutual bond funds to the top ratings issued by nationally recognized statistical rating organizations (NRSROs). As of August 31, 2017, the District had no investments that were required to be rated. Therefore, the District was not exposed to credit risk.

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

*Concentration of Credit Risk.* To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District limits investments to less than 5% of its total investments. The District further limits investments in a single issuer when they would cause investment risks to be significantly greater in the governmental and business-type activities, individual major funds, aggregate non-major funds and fiduciary fund types than they are in the primary government. Usually this limitation is 20%. The District was not exposed to concentration of credit risk.

*Interest Rate Risk.* To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District requires a review of its investment portfolio at least annually to determine whether market conditions pose an inherent risk of future interest rates either rising or falling which could significantly affect investment performance. The District was not exposed to interest rate risk.

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

The District categorizes its fair value measurements with the fair value hierarchy established by generally accepted accounting principles. the hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments that are measured at fair value using the net asset value per share (or its equivalent) as a practical expedient are not classified in the fair value hierarchy below. In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The District's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

At August 31, 2017, the District had no investments.

**B. PROPERTY TAXES**

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

**C. DELINQUENT TAXES RECEIVABLE**

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

**D. INTERFUND BALANCES AND TRANSFERS**

The composition of interfund balances as of August 31, 2017 is as follows:

Fund	Receivable	Payable	Purpose	Current?
General fund	\$ 20,468	\$	Temporary advances	Yes
Nonmajor governmental funds		20,468	Temporary advances	Yes
Total	<u>\$ 20,468</u>	<u>\$ 20,468</u>		

Interfund transfers for the year ended August 31, 2017 consisted of the following individual amounts:

Fund	Transfers In	Transfers Out	Purpose
Special revenue fund	\$ 18,221	\$	Operating deficit transfer
General fund		18,221	Operating deficit transfer
Total	<u>\$ 18,221</u>	<u>\$ 18,221</u>	

**E. DISAGGREGATION OF RECEIVABLES AND PAYABLES**

Receivables at August 31, 2017 were as follows:

	Property Taxes (net)	Other Government	Other Receivables	Total Receivables
Governmental Activities:				
General fund	\$ 37,393	\$ 163,081	\$ 256	\$ 200,730
Nonmajor governmental funds		25,322		25,322
Total Governmental Activities	<u>\$ 37,393</u>	<u>\$ 188,403</u>	<u>\$ 256</u>	<u>\$ 226,052</u>

Payables at August 31, 2017 were as follows:

	Accounts	Salaries and Benefits	Total Payables
Governmental Activities:			
General fund	\$ 4,899	\$ 41,582	\$ 46,481
Nonmajor governmental funds	2,053	4,699	6,752
Total Governmental Activities	<u>\$ 6,952</u>	<u>\$ 46,281</u>	<u>\$ 53,233</u>

**F. CAPITAL ASSET ACTIVITY**

Capital asset activity for the year ended August 31, 2017, was as follows:

	Balance 8/31/16	Additions	Disposals	Balance 8/31/17
Governmental activities:				
Land and improvements	\$ 55,366	\$	\$	\$ 55,366
Buildings and improvements	3,255,715			3,255,715
Furniture and equipment	578,813			578,813
Totals	3,889,894			3,889,894
Less accumulated depreciation for:				
Buildings and improvements	1,727,574	93,271		1,820,845
Furniture and equipment	468,748	23,004		491,752
Total accumulated depreciation	2,196,322	116,275		2,312,597
Governmental activities capital assets, net	\$ 1,693,572	\$ (116,275)	\$ 0	\$ 1,577,297

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

Governmental activities:	
Instruction	\$ 91,156
Student (pupil) transportation	18,719
Extracurricular activities	3,493
Facilities maintenance and operations	2,907
Total depreciation expense - governmental activities	<u>\$ 116,275</u>

**G. DEBT SERVICE REQUIREMENTS - CAPITAL LEASES**

Capital Leases

The Public Property Finance Act gives the District authority to enter into capital leases for the acquisition of personal property. Current principal and interest requirements are recorded in the applicable fund. Commitments under capitalized lease agreements for facilities and equipment provide minimum future rental payments as of August 31, 2017 as follows:

Year ending August 31,	Amount
2018	\$ 112,000
2019	112,050
2020	116,825
2021	116,050
Less: incremental borrowing rate of interest	(56,925)
Present value of future lease payments	<u>\$ 400,000</u>

The capital lease had an imputed interest rate of 5.50% and imputed interest paid totaling \$26,950 for the year.

The capital lease agreement is between the District and the Public Facilities Corporation discussed in footnote I.A. above where the Corporation leases an educational facility to the District with an option to purchase at the end of the lease term. The underlying debt of the Corporation is characterized as lease revenue bonds with semi-annual payments due February 1<sup>st</sup> and August 1<sup>st</sup> of each year until final maturity in August, 2021.



## H. 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.

<u>Net Pension Liability</u>	<u>Total</u>
Total Pension Liability	\$ 171,797,150,487
Less: Plan Fiduciary Net Position	(134,008,637,473)
Net Pension Liability	<u>\$ 37,788,513,014</u>
Net Position as a percentage of Total Pension Liability	78.00%

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

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

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

Contribution Rates		
	2016	2017
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%

Current fiscal year District contributions	\$	33,448
Current fiscal year Member contributions	\$	77,533
2016 measurement year NECE contributions	\$	52,672

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

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

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

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, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases	3.5% to 9.5% including inflation
Benefit Changes During the Year	None
Ad hoc Post-Employment Benefit Changes	None

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

**Discount Rate.** The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to

determine the total pension liability. The long-term rate of return on pension plan investments is 8%. 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, 2016 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
<b>Global Equity</b>			
U.S.	18%	4.6%	1.0%
Non-U.S. Developed	13%	5.1%	0.8%
Emerging Markets	9%	5.9%	0.7%
Directional Hedge Funds	4%	3.2%	0.1%
Private Equity	13%	7.0%	1.1%
<b>Stable Value</b>			
U.S. Treasuries	11%	0.0%	0.1%
Absolute Return	0%	1.8%	0.0%
Hedge Funds (Stable Value)	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
<b>Real Return</b>			
Global 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%
<b>Risk Parity</b>			
Risk Parity	5%	6.7%	0.3%
Inflation Expectations			2.2%
Alpha			1.0%
<b>Total</b>	<b>100%</b>		<b>8.7%</b>

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

**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 2016 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	\$ 786,736	\$ 508,338	\$ 272,200

**Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions.** At August 31, 2017, the District reported a liability of \$508,338 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	\$ 508,338
State's proportionate share that is associated with the District	625,203
Total	<u>\$ 1,133,541</u>

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The District's proportion of the net pension liability was based on the District's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2015 thru August 31, 2016.

At August 31, 2016 the District's proportion of the collective net pension liability was 0.0013452% which was an increase of 0.0001547% from its proportion measured as of August 31, 2015.

**Changes Since the Prior Actuarial Valuation.** There were no changes to the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

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, 2017, the District recognized pension expense of \$64,881 and revenue of \$64,881 for support provided by the State in the Government-Wide Statement of Activities.

At August 31, 2017, 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
Difference between expected and actual economic experiences	\$ 7,971	\$ 15,179
Changes in actuarial assumptions	15,493	14,090
Differences between projected and actual investment earnings	43,045	
Changes in proportion and differences between the District's contributions and the proportionate share of contributions	114,877	42
Total as of August 31, 2016 measurement date	\$ 181,386	\$ 29,311
Contributions paid to TRS subsequent to the measurement date	33,448	
Total as of August 31, 2017 fiscal year end	\$ 214,834	\$ 29,311

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

Year ended August 31,	Pension Expense Amount
2018	\$ 25,692
2019	\$ 25,692
2020	\$ 53,148
2021	\$ 23,582
2022	\$ 15,891
Thereafter	\$ 8,070

**I. HEALTH CARE COVERAGE - RETIREES AND ACTIVE EMPLOYEES**

**Retiree Health Care Coverage**

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

**Funding Policy.** Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The Contribution Rate for the State was 1.00% for 2015, 2016 and 2017. The contribution rate for the district was 0.55% for each of these three years. The contribution rate for active employees was 0.65% of the district payroll for each of the three years. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribution 1.0 %.

**Contributions.** Contributions made by the State on behalf of the District are recorded in the governmental funds financial statements as both revenue and expenditures. State contributions to TRS made on behalf of the District's employees as well as the District's required contributions and federal grant program contributions for the years ended August 31, 2017, 2016 and 2015 are as follows:

Contribution Rates and Contribution Amounts						
Year	Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2017	0.65%	\$ 6,545	1.00%	\$ 10,069	0.55%	\$ 5,538
2016	0.65%	\$ 6,299	1.00%	\$ 9,690	0.55%	\$ 5,329
2015	0.65%	\$ 7,238	1.00%	\$ 11,135	0.55%	\$ 6,125

**Medicare Part D.** The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006 established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the 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 recognized as equal revenues and expenditures by the District for the years ended August 31, 2017, 2016 and 2015 were \$3,017, \$3,587 and \$4,595, respectively.

**Active Employee Health Care Coverage**

**Plan Description.** The District participates in TRS Active Care sponsored by the Teacher Retirement System of Texas. TRS-Active Care provides health care coverage to employees (and their dependents) of participating public education entities. Optional life and long-term care insurance are also provided to active members and retirees. Authority for the plan can be found in the Texas Insurance Code, Title 8, Subtitle H, Chapter 1579 and in the Texas Administrative Code, Title 34, Part 3, Chapter 41. The plan began operations on September 1, 2002. This is a premium-based plan. Payments are made on a monthly basis for all covered employees.

**J. CHANGES IN LONG-TERM LIABILITIES**

Long-term activity for the year ended August 31, 2017, was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance	Due Within One Year
Capital lease liability	\$ 490,000	\$	\$ 90,000	\$ 400,000	\$ 90,000
Net pension liability	420,826	130,253	42,741	508,338	0
Totals	<u>\$ 910,826</u>	<u>\$ 130,253</u>	<u>\$ 132,741</u>	<u>\$ 908,338</u>	<u>\$ 90,000</u>

**K. UNAVAILABLE/UNEARNED REVENUE**

Unavailable and unearned revenue at year-end consisted of the following:

	Unavailable Revenue (levied but uncollected property taxes)
General fund	<u>\$ 37,393</u>

**L. DUE FROM STATE AND FEDERAL AGENCIES**

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from federal and state governments as of August 31, 2017, are summarized below. They are reported on the combined financial statements as Due from Other Governments.

Fund	State Entitlements	Federal Grants	Total
General	\$ 159,842	\$	\$ 159,842
Special revenue		25,322	25,322
Net Total Receivables	<u>\$ 159,842</u>	<u>\$ 25,322</u>	<u>\$ 185,164</u>

**M. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES**

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

Description	General Fund	Nonmajor Governmental Funds	Total
Property taxes	\$ 726,350	\$	\$ 726,350
Penalties, interest and other tax related income	16,027		16,027
Food sales		12,109	12,109
Investment income	5,706	360	6,066
Extracurricular student activities	26,392		26,392
Other income	1,561		1,561
Total	<u>\$ 776,036</u>	<u>\$ 12,469</u>	<u>\$ 788,505</u>

**N. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

The District participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the District has not complied with the rules and regulations governing the grants, refunds

of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the District, there are no significant contingent liabilities related to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

#### **O. JOINT VENTURE SHARED SERVICE ARRANGEMENTS**

The District participates in a shared services arrangement for Special Education services with the Bosque County Education Cooperative. 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, Meridian ISD, nor does the district have a net equity interest in the fiscal agent. The fiscal agent is neither accumulating significant financial resources nor fiscal exigencies that would give rise to a future additional benefit or burden to the District. The fiscal agent manager is responsible for all financial activities of the shared services arrangement.

The District also participates in various shared service arrangements with the Education Service Center Region 12. The District does not account for revenues or expenditures in this program and does not disclose them in these financial statements. The Education Service Center Region 12 is the fiscal agent manager and is responsible for all financial activities of the shared service arrangement.

#### **P. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During the fiscal year 2017, the District purchased commercial insurance to cover general liabilities. Additional insurance information by coverage type follows.

##### Property Casualty Program

The District participated in the Texas Association of School Boards Risk Management Fund (the "Fund") with coverage in auto liability, auto physical damage, general liability, property and legal liability. The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties. There were no significant reductions in coverage in the past fiscal year and there were not settlements exceeding insurance coverage for each of the past three years.

The Fund purchases stop-loss coverage for protection against catastrophic and larger than anticipated claims for its auto, liability and property programs. The terms and limits of the stop-loss program vary by line coverage. The Fund uses the services of an independent actuary to determine the adequacy of reserves and fully funds those reserves. For the year ended August 31, 2017, the Fund anticipates the District has not additional liability beyond the contractual obligations for payment of contributions.

##### Workers' Compensation

The District has established a partially self-funded workers' compensation plan by participating in the Claims Administrative Services, Inc. self-insured workers' compensation program administered by Texas Educational Insurance Association (the "Association"). The Association is a public entity risk pool currently operating as a common risk management and insurance program for member school districts. The main purpose of the Association is to partially self-insure certain workers compensation risks up to a agreed upon retention limit. The plan for workers' compensation benefits is authorized by Section 504.011 of the Labor Code. Claims are paid by a third party administrator acting on behalf of the District under the terms of a contractual agreement. Administrative fees are included within the provisions of that agreement. The liability of the workers' compensation self-insurance plan includes \$21,513 incurred but not reported claims. Costs are allocated to other funds and the retained earnings are fully reserved for self-funded insurance. Estimates of claims payable at August 31, 2017, are reflected as accounts and claims payable of the Fund. The plan is funded to discharge liabilities of the fund as they become due.

##### Unemployment Compensation

During the year ended August 31, 2017, the District provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the "Fund"). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's unemployment compensation program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute interlocal agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore, there is no need for specific or aggregate stop-loss coverage for the unemployment compensation pool. For the year ended August 31, 2017, the Fund anticipates that the District has no additional liability beyond the contractual obligation for payment of contribution.

The Fund engages the services of an independent auditor to conduct a financial audit after the close of each year on August 31. The audit is accepted by the Fund's board of trustees in February of the following year. The Fund's audited financial statements as of August 31, 2016, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

**Q. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through January 11, 2018; the date which the financial statements were available for distribution. There were none noted.



*REQUIRED SUPPLEMENTARY INFORMATION*

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WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
<b>REVENUES:</b>					
5700	Total Local and Intermediate Sources	\$ 712,250	\$ 775,250	\$ 776,036	\$ 786
5800	State Program Revenues	1,079,860	1,027,000	1,039,237	12,237
5900	Federal Program Revenues	8,000	19,586	22,209	2,623
5020	Total Revenues	1,800,110	1,821,836	1,837,482	15,646
<b>EXPENDITURES:</b>					
Current:					
0011	Instruction	883,870	886,870	879,126	7,744
0012	Instructional Resources and Media Services	24,780	24,530	24,135	395
0013	Curriculum and Instructional Staff Development	150	1,400	1,240	160
0023	School Leadership	120,566	117,066	115,704	1,362
0031	Guidance, Counseling and Evaluation Services	37,831	27,831	25,941	1,890
0033	Health Services	1,300	900	332	568
0034	Student (Pupil) Transportation	42,975	33,975	30,688	3,287
0036	Extracurricular Activities	67,559	92,027	87,800	4,227
0041	General Administration	167,690	184,690	180,550	4,140
0051	Facilities Maintenance and Operations	155,360	161,310	163,093	(1,783)
0053	Data Processing Services	29,000	30,050	30,016	34
Debt Service:					
0071	Principal on Long Term Debt	90,000	90,000	90,000	-
0072	Interest on Long Term Debt	27,000	27,000	26,950	50
0073	Bond Issuance Cost and Fees	1,650	1,850	1,900	(50)
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	107,944	106,344	106,202	142
0099	Other Intergovernmental Charges	16,700	15,850	15,719	131
6030	Total Expenditures	1,774,375	1,801,693	1,779,396	22,297
1100	Excess of Revenues Over Expenditures	25,735	20,143	58,086	37,943
<b>OTHER FINANCING SOURCES (USES):</b>					
7912	Sale of Real and Personal Property	-	-	725	725
8911	Transfers Out (Use)	(25,735)	(20,143)	(18,221)	1,922
7080	Total Other Financing Sources (Uses)	(25,735)	(20,143)	(17,496)	2,647
1200	Net Change in Fund Balances	-	-	40,590	40,590
0100	Fund Balance - September 1 (Beginning)	916,973	916,973	916,973	-
3000	Fund Balance - August 31 (Ending)	\$ 916,973	\$ 916,973	\$ 957,563	\$ 40,590

WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY  
 TEACHER RETIREMENT SYSTEM  
 FOR THE YEAR ENDED AUGUST 31, 2017

	Measurement Year Ended August 31,		
	2016	2015	2014
District's Proportion of the Net Pension Liability (Asset)	0.0013452%	0.0011905%	0.0008803%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 508,338	\$ 420,826	\$ 235,140
States Proportionate Share of the Net Pension Liability (Asset) associated with the District	625,203	748,155	641,872
Total	<u>\$ 1,133,541</u>	<u>\$ 1,168,981</u>	<u>\$ 877,012</u>
District's Covered Employee Payroll	\$ 968,989	\$ 1,113,538	\$ 1,134,843
District's Proportionate Share of the Net Pension Liability (Asset) as a percentage of its Covered Employee Payroll	52.46%	37.79%	20.72%
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	78.00%	78.43%	83.25%

Note: Only three years of data is presented in accordance with GASB #68, paragraph 138. "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."

WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF THE DISTRICT CONTRIBUTIONS  
 TEACHER RETIREMENT SYSTEM  
 FOR THE YEAR ENDED AUGUST 31, 2017

	Fiscal Year Ended August 31,		
	2017	2016	2015
Contractually Required Contribution	\$ 33,448	\$ 42,741	\$ 35,251
Contribution in Relation to the Contractually Required Contribution	<u>(33,448)</u>	<u>(42,741)</u>	<u>(35,251)</u>
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's Covered Employee Payroll	\$ 1,006,923	\$ 968,989	\$ 1,113,538
Contributions as a percentage of Covered Employee Payroll	3.32%	4.41%	3.17%

Note: Only three years of data is presented in accordance with GASB #68, paragraph 138. "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."

**WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT**  
*NOTES TO REQUIRED SUPPLEMENTARY INFORMATION*  
*FOR THE YEAR ENDED AUGUST 31, 2017*

Budget

The official budget was prepared for adoption for all Governmental Fund Types. The budget was prepared in accordance with accounting practices generally accepted in the United States of America. The following procedures are followed in establishing the budgetary data.:

- a. Prior to August 21 of the preceding fiscal year, the District prepares a budget for the next succeeding fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- b. A meeting of the Board is then called for the purpose of adopting the proposed budget after ten days' public notice of the meeting has been given.
- c. Prior to the beginning of the fiscal year, the budget is legally enacted through passage of a resolution by the Board.

Once a budget is approved, it can be amended at function and fund level only by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings.

Each amendment must have Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board and are not made after fiscal year end as required by law.

Each amendment is controlled by the budget coordinator at the revenue and expenditure function/object level.

Budgeted amounts are as amended by the Board. All budget appropriations lapse at year end.

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

Defined Benefit Pension Plan

*Changes of benefit terms.*

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

*Changes of assumptions.*

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

*COMBINING SCHEDULES*

WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AUGUST 31, 2017

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income	
<b>ASSETS</b>					
1110	Cash and Cash Equivalents	\$ -	\$ 1,708	\$ -	\$ -
1240	Receivables from Other Governments	7,707	2,314	14,101	1,200
1410	Prepayments	-	190	-	-
1000	<b>Total Assets</b>	<u>\$ 7,707</u>	<u>\$ 4,212</u>	<u>\$ 14,101</u>	<u>\$ 1,200</u>
<b>LIABILITIES</b>					
2110	Accounts Payable	\$ 15	\$ 1,872	\$ 166	\$ -
2160	Accrued Wages Payable	2,143	2,293	-	-
2170	Due to Other Funds	5,333	-	13,935	1,200
2200	Accrued Expenditures	216	47	-	-
2000	<b>Total Liabilities</b>	<u>7,707</u>	<u>4,212</u>	<u>14,101</u>	<u>1,200</u>
4000	<b>Total Liabilities and Fund Balances</b>	<u>\$ 7,707</u>	<u>\$ 4,212</u>	<u>\$ 14,101</u>	<u>\$ 1,200</u>



410 State Textbook Fund	429 Other State Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 1,708
-	-	25,322
-	-	190
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,220</u>
\$ -	\$ -	\$ 2,053
-	-	4,436
-	-	20,468
-	-	263
<u>-</u>	<u>-</u>	<u>27,220</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,220</u>

WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
 FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	211 ESEA I, A Improving Basic Program	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income
<b>REVENUES:</b>				
5700 Total Local and Intermediate Sources	\$ -	\$ 12,469	\$ -	\$ -
5800 State Program Revenues	-	4,615	-	-
5900 Federal Program Revenues	92,938	115,656	14,101	11,202
5020 Total Revenues	92,938	132,740	14,101	11,202
<b>EXPENDITURES:</b>				
Current:				
0011 Instruction	92,135	-	8,380	4,002
0012 Instructional Resources and Media Services	803	-	-	-
0013 Curriculum and Instructional Staff Development	-	-	5,721	-
0033 Health Services	-	-	-	7,200
0035 Food Services	-	150,961	-	-
6030 Total Expenditures	92,938	150,961	14,101	11,202
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	-	(18,221)	-	-
<b>OTHER FINANCING SOURCES (USES):</b>				
7915 Transfers In	-	18,221	-	-
1200 Net Change in Fund Balance	-	-	-	-
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -

410 State Textbook Fund	429 Other State Special Revenue Funds	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 12,469
8,284	350	13,249
-	-	233,897
8,284	350	259,615
8,284	350	113,151
-	-	803
-	-	5,721
-	-	7,200
-	-	150,961
8,284	350	277,836
-	-	(18,221)
-	-	18,221
-	-	-
-	-	-
\$ -	\$ -	\$ -

WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
 AGENCY FUND  
 FOR THE YEAR ENDED AUGUST 31, 2017

	BALANCE SEPTEMBER 1 2016	ADDITIONS	DEDUCTIONS	BALANCE AUGUST 31 2017
<b>STUDENT ACTIVITY ACCOUNT</b>				
Assets:				
Cash and Temporary Investments	\$ 13,620	\$ 27,855	\$ 32,299	\$ 9,176
Liabilities:				
Due to Student Groups	\$ 13,620	\$ 27,855	\$ 32,299	\$ 9,176
<b>TOTAL AGENCY FUNDS</b>				
Assets:				
Cash and Temporary Investments	\$ 13,620	\$ 27,855	\$ 32,299	\$ 9,176
Liabilities:				
Due to Student Groups	\$ 13,620	\$ 27,855	\$ 32,299	\$ 9,176

*REQUIRED TEA SCHEDULES*

WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT  
SCHEDULE OF DELINQUENT TAXES RECEIVABLE  
FISCAL YEAR ENDED AUGUST 31, 2017

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2008 and prior years	Various	Various	\$ Various
2009	0.899900	0.000000	Various
2010	0.900000	0.000000	Various
2011	0.899900	0.000000	73,880,876
2012	0.899900	0.000000	70,308,715
2013	0.899900	0.000000	70,741,835
2014	0.899900	0.000000	69,781,113
2015	0.899900	0.000000	72,503,291
2016	0.939900	0.000000	75,378,873
2017 (School year under audit)	0.939900	0.000000	75,645,987
1000 TOTALS			

(10) Beginning Balance 9/1/2016	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2017
\$ 11,669	\$ -	\$ 152	\$ -	\$ (76)	\$ 11,441
1,773	-	-	-	-	1,773
1,790	-	10	-	-	1,780
2,159	-	64	-	-	2,095
2,624	-	3,982	-	3,715	2,357
4,234	-	4,862	-	3,731	3,103
6,350	-	5,958	-	3,730	4,122
8,551	-	6,727	-	3,743	5,567
19,939	-	9,548	-	2,753	13,144
-	710,997	695,047	-	689	16,639
<u>\$ 59,089</u>	<u>\$ 710,997</u>	<u>\$ 726,350</u>	<u>\$ -</u>	<u>\$ 18,285</u>	<u>\$ 62,021</u>

WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - CHILD NUTRITION PROGRAM  
 FOR THE YEAR ENDED AUGUST 31, 2017

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	\$ 11,700	\$ 11,700	\$ 12,469	\$ 769
5800	State Program Revenues	4,678	4,678	4,615	(63)
5900	Federal Program Revenues	106,000	113,672	115,656	1,984
5020	Total Revenues	122,378	130,050	132,740	2,690
EXPENDITURES:					
0035	Food Services	148,113	150,193	150,961	(768)
6030	Total Expenditures	148,113	150,193	150,961	(768)
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(25,735)	(20,143)	(18,221)	1,922
OTHER FINANCING SOURCES (USES):					
7915	Transfers In	25,735	20,143	18,221	(1,922)
1200	Net Change in Fund Balances	-	-	-	-
0100	Fund Balance - September 1 (Beginning)	-	-	-	-
3000	Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ -



*OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION*

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## Independent Auditor's Report

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENTAL AUDITING STANDARDS*

Board of Trustees  
Walnut Springs Independent School District  
P.O. Box 63  
Walnut Springs, Texas 76690

I 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, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Walnut Springs Independent School District (the "District") as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated January 10, 2018.

### Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My 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 my audit I did not identify any deficiencies in internal control that I 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 Walnut Springs Independent School District's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my 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 my testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cameron L. Gulley  
Certified Public Accountant

January 10, 2018

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**WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT**  
*SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS*  
*FOR THE YEAR ENDED AUGUST 31, 2017*

Finding	Statement of Condition	Material Weakness?	Questioned Costs
	None reported.		

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**WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT**  
*SCHEDULE OF FINDINGS AND QUESTIONED COSTS*  
*FOR THE YEAR ENDED AUGUST 31, 2017*

I. Summary of Auditor's Results

A. Financial Statements

Type of auditor's report issued:	Unmodified.
Internal control over financial reporting:	
Material weakness(es) identified?	None reported.
Significant deficiency(ies) identified that are not considered to be material weaknesses?	None reported.
Noncompliance material to financial statements noted?	No.

B. Federal Awards

Not applicable.

II. Findings Relating to the Financial Statements which are Required to be Reported in Accordance with Generally Accepted Government Auditing Standards

None reported.

III. Findings and Questioned Costs for Federal Awards

N/A.

**WALNUT SPRINGS INDEPENDENT SCHOOL DISTRICT**  
*CORRECTIVE ACTION PLAN*  
*FOR THE YEAR ENDED AUGUST 31, 2017*

None required.