



China Spring ISD

**ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2016**

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2016

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CERTIFICATE OF BOARD

China Spring Independent School District
Name of School District

McLennan
County

161920
Co. - Dist. Number

We, the undersigned, certify that the attached annual financial reports of the above-named school district were reviewed and (check one) approved disapproved for the year ended June 30, 2016, at a meeting of the Board of Trustees of such school district on the 14th day of November 2016.



Signature of Board Secretary



Signature of Board President

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

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P A T T I L L O , B R O W N & H I L L , L . L . P .
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
China Spring Independent School District
Bosqueville, Texas

Report on the Financial Statements

We 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 of China Spring ISD, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise China Spring ISD's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and pension information on pages 43 and 46 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise China Spring Independent School District's basic financial statements. The combining statements, required TEA schedules and the Schedule of Expenditures of Federal Awards, as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2016 on our consideration of China Spring Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering China Spring Independent School District's internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
November 9, 2016

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

Our discussion and analysis of China Spring Independent School District's financial performance provides an overview of the District's financial activities for the year ended June 30, 2016. Please read it in conjunction with the District's financial statements, which begin on page 12.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the District exceeded its liabilities at the close of the most recent fiscal year by \$23,893,322 (*net position*). Of this amount, \$6,980,004 (*unrestricted net position*) may be used to meet the District's ongoing obligations to students and creditors.
- The District's total net position increased by \$3,400,740.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$13,234,968, an increase of \$2,212,110 in comparison with the prior year. This change was primarily due to increased state revenue due to growth in ADA, while maintaining expenditures (net of capital outlay) consistent with the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$8,594,086, or 43% of total General Fund expenditures, an increase of \$1,570,821 or 18%, from the prior year.

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 12 and 13). These provide information about the activities of the District as a whole and present a long-term view of the District's property and obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 14) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how services of the District were sold to external customers. The District currently has no proprietary activities. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the government.

The notes to the financial statements (starting on page 19) provide narrative explanations or additional data needed for full disclosure in the government-wide statements of the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. 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 12. Its primary objective 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, deferred outflows/inflows of resources and liabilities while the Statement of Activities includes all the revenue and expenses generated by the District's operations during the year. These apply the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The District's revenue is divided into those provided by outside parties who share the costs of some programs, such as tuition received from students from outside the District and grants provided by the U. S. Department of Education to assist children with disabilities or from disadvantaged backgrounds (program revenue), and general revenue provided by the taxpayers or by TEA in equalization funding processes (general revenue). All of 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, deferred outflows/inflows of resources and liabilities) provide one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the District, however, you should consider nonfinancial factors as well, such as changes in the District's average daily attendance or its property tax base and the condition of the District's facilities.

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

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

Reporting the District's Most Significant Funds

Fund Financial Statements

The Fund financial statements begin on page 14 and provide detailed information about the most significant funds – not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under ESEA Title I from the U. S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes. The District has only governmental type funds.

Governmental Funds – The District reports its services in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and they 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. The differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds can be found in reconciliation schedules following each of the governmental 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 separate Statements of Fiduciary Net Position on page 18. We exclude these resources from the District’s other financial statements because the District cannot use them to support its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following analysis focuses on the net position (Table 1) and changes in net position (Table 2) of the District’s governmental activities.

Net position of the District’s governmental activities increased from \$20,492,582 to \$23,893,322. Unrestricted net position – the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – was \$6,980,004 at June 30, 2016.

The net assets of governmental activities increased by 16.6%, \$23,893,322 in 2016 from \$20,492,582 in 2015. The District’s increase in net position of \$3,400,740 for the year 2016 resulted primarily from the following:

- State aid increased by approximately \$2.1 million in fiscal year 2016. This increase was the result of an increase in number of students.
- Expenses (net of capital outlay) were level from 2015 to 2016, thereby allowing the district to increase their net position due to strong financial management.

TABLE 1
CHINA SPRING INDEPENDENT SCHOOL DISTRICT
NET POSITION

	Governmental Activities	
	2016	2015
Current and other assets	\$ 15,915,058	\$ 13,706,444
Capital assets	<u>56,877,944</u>	<u>56,974,703</u>
Total assets	72,793,002	70,681,147
Total deferred outflows of resources	<u>3,955,150</u>	<u>1,415,419</u>
Long-term liabilities	49,403,078	48,434,220
Other liabilities	<u>2,832,735</u>	<u>2,717,036</u>
Total liabilities	<u>52,235,813</u>	<u>51,151,256</u>
Total deferred inflows of resources	<u>619,017</u>	<u>452,728</u>
Net position:		
Net investment in capital assets	12,890,515	11,518,835
Restricted	4,022,803	3,380,508
Unrestricted	<u>6,980,004</u>	<u>5,593,239</u>
Total net position	<u>\$ 23,893,322</u>	<u>\$ 20,492,582</u>

TABLE 2
CHINA SPRING INDEPENDENT SCHOOL DISTRICT
CHANGES IN NET POSITION

	Governmental Activities	
	2016	2015
REVENUES		
Program revenues:		
Charges for services	\$ 711,001	\$ 631,380
Operating grants and contributions	4,180,673	3,409,351
General revenues:		
Maintenance and operations taxes	6,838,402	6,697,813
Debt service taxes	3,115,551	3,211,043
Grants and contributions not restricted	12,079,148	10,346,704
Investment earnings	34,431	58,418
Miscellaneous	40,210	72,752
Special item	1,037,528	-
Total revenues	<u>28,036,944</u>	<u>24,427,461</u>
EXPENSES		
Instruction	12,917,485	11,901,894
Instructional resources and media services	225,903	185,943
Curriculum and staff development	79,894	63,753
Instructional leadership	261,043	224,140
School leadership	1,423,034	1,285,391
Guidance, counseling and evaluation services	803,817	647,738
Health services	212,311	198,169
Student (pupil) transportation	935,585	917,245
Food services	1,104,670	1,012,014
Co-curricular/extracurricular activities	1,013,691	859,217
General administration	875,115	1,201,893
Plant maintenance and operations	2,554,845	2,208,100
Security and monitoring services	58,709	58,389
Data processing services	38,191	37,970
Debt service - interest on long-term debt	1,834,254	1,878,800
Debt service - bond issuance cost and fees	161,447	190,817
Other governmental charges	136,211	145,210
Total expenses	<u>24,636,204</u>	<u>23,016,683</u>
INCREASE IN NET POSITION	3,400,740	1,410,778
NET POSITION, BEGINNING	20,492,582	20,781,028
PRIOR PERIOD ADJUSTMENT	-	(1,699,224)
NET POSITION, ENDING	<u>\$ 23,893,322</u>	<u>\$ 20,492,582</u>

The cost of all governmental activities this year was \$24,636,204. However, the amount that the taxpayers ultimately financed for these activities through District taxes was \$7,665,382 because some of the cost was paid by those who directly benefited from the programs (\$711,001), by other governments and organizations that subsidized certain programs with operating grants and contributions (\$4,180,673), or by other grants and contributions not restricted (\$12,079,148).

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 14) reported a combined fund balance of \$13,234,968, which is greater than last year's total of \$11,022,858. Total government revenue increased in fiscal year 2016 by \$2.3 million compared to fiscal year 2015 as a result of several items. This increase is primarily due to an increase of approximately 2.1 million in state aid due to growth in student ADA.

Total governmental expenditures decreased by \$5.8 million in fiscal year 2016 as compared to fiscal year 2015. If capital outlay is excluded for both years, expenditures increased only modestly from 2015 to 2016 by a total of \$553 thousand, due to conservative management of expenditures.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, total General fund balance was \$8,594,086, all of which was unassigned. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund expenditures. Unassigned General fund balance represents 43.05% of total General fund expenditures.

The fund balance of the District's General Fund increased \$1,570,821 during the current year. Key factors in this growth are an increase in the District's assessed property valuation, and the District made an effort to maintain its operating expenditures in the current year due to the level of funding in the current year and the uncertainty of funding from TEA in future years.

The Debt Service Fund has a total fund balance of \$4,626,175, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in the Debt Service Fund was \$743,711.

The majority of the increase in overall fund balance is due to the increase in state funding due to increased student ADA.

During the year, the Board of Trustees amended the District's budget as needed. Changes in appropriations were made to recognize board approved purchasing actions and to allow the district to appropriately code financial transactions by fund and function.

The District's General Fund balance of \$8,594,086 reported on pages 16 and 42 differs from the General Fund's final budgetary fund balance of \$5,676,033. This is principally due an effort by the Board to maintain its operating expenditures in the current year due to the uncertainty of funds that would be received from TEA in the current and future years.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016, the District had approximately \$56.9 million invested in a broad range of capital assets, including instructional facilities and equipment, transportation facilities and equipment, athletic facilities, and administrative and maintenance buildings and equipment. More detailed information about the District's capital assets is presented on pages 28 and 29 in the notes to the financial statements.

Debt

At year-end, the District had \$45.6 million in long-term liabilities outstanding as of June 30, 2016. During the current year, the District made annual debt service payments to reduce bonds in the amount of approximately \$1,985,091 and issued Series 2016 Unlimited Tax Refunding Bonds. More detailed information about the District's long-term liabilities is presented on pages 30 through 32 in the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal year 2017 budget and tax rates.

Assessed property values in the District increased which resulted in increased property tax revenue. The District continues to increase its average daily attendance which will continue to add to state funding revenue. The District is also focusing on maximizing revenue and limiting expenditures to increase their fund balances and net assets.

If these estimates are realized, the District's budgetary General Fund balance is expected to increase modestly by the close of 2017. More importantly, however, this will have been accomplished in spite of unfunded mandates.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Administration office, at P. O. Box 250, China Spring, Texas 76633.

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BASIC FINANCIAL STATEMENTS

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2016

Data Control Codes		1 <u>Primary Government</u> Governmental Activities
ASSETS		
1110	Cash and cash equivalents	\$ 10,636,827
1220	Delinquent property taxes receivables	455,625
1230	Allowance for uncollectible taxes	(159,469)
1240	Due from other governments	4,476,070
1267	Due from fiduciary funds	4,805
1290	Other receivables	501,200
	Capital assets:	
1510	Land	697,491
1520	Buildings and improvements, net	53,551,488
1530	Furniture and equipment, net	1,335,293
1580	Construction in progress	<u>1,293,672</u>
1000	Total assets	<u>72,793,002</u>
DEFERRED OUTFLOWS OF RESOURCES		
1701	Deferred loss on bond refunding	1,483,270
1705	Deferred outflow related to TRS	<u>2,471,880</u>
1700	Total deferred outflows of resources	<u>3,955,150</u>
LIABILITIES		
2110	Accounts payable	402,441
2140	Interest payable	699,917
2150	Payroll deductions and withholdings	5,712
2160	Accrued wages	1,571,114
2200	Accrued expenses	132,257
2300	Unearned revenue	21,294
	Noncurrent liabilities:	
2501	Due within one year	2,075,525
2502	Due in more than one year	<u>47,327,553</u>
2000	Total liabilities	<u>52,235,813</u>
DEFERRED INFLOWS OF RESOURCES		
2605	Deferred inflow related to TRS	<u>619,017</u>
2600	Total deferred inflows of resources	<u>619,017</u>
NET POSITION		
3200	Net investment in capital assets	12,890,515
	Restricted for:	
3850	Debt service	4,022,803
3900	Unrestricted	<u>6,980,004</u>
3000	Total net position	<u>\$ 23,893,322</u>

The accompanying notes are an integral part of this financial statement.

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position 6
			3 Charges for Services	4 Operating Grants and Contributions	
					Governmental Activities
Primary government:					
Governmental activities:					
11	Instruction	\$ 12,917,485	\$ -	\$ 2,000,034	\$(10,917,451)
12	Instructional resources and media services	225,903	-	14,954	(210,949)
13	Curriculum and staff development	79,894	-	48,112	(31,782)
21	Instructional leadership	261,043	-	26,039	(235,004)
23	School leadership	1,423,034	-	105,168	(1,317,866)
31	Guidance, counseling, and evaluation services	803,817	-	192,057	(611,760)
33	Health services	212,311	-	16,149	(196,162)
34	Student transportation	935,585	-	38,421	(897,164)
35	Food service	1,104,670	561,775	482,974	(59,921)
36	Extracurricular activities	1,013,691	149,226	41,312	(823,153)
41	General administration	875,115	-	44,587	(830,528)
51	Facilities maintenance and operations	2,554,845	-	72,733	(2,482,112)
52	Security and monitoring services	58,709	-	4,849	(53,860)
53	Data processing services	38,191	-	-	(38,191)
72	Interest on long-term debt	1,834,254	-	1,093,284	(740,970)
73	Bond issuance costs and fees	161,447	-	-	(161,447)
99	Other governmental changes	136,211	-	-	(136,211)
TG	Total governmental activities	\$ 24,636,204	\$ 711,001	\$ 4,180,673	(19,744,530)

Data Control Codes	General revenues:	
Taxes:		
MT	Property taxes, levied for general purposes	6,838,402
DT	Property taxes, levied for debt service	3,115,551
GC	Grants and contributions not restricted	12,079,148
IE	Investment earnings	34,431
MI	Miscellaneous	40,210
S1	Special item	1,037,528
TR	Total general revenues and special item	23,145,270
CN	Change in net position	3,400,740
NB	Net position--beginning	20,492,582
NE	Net position--ending	\$ 23,893,322

The accompanying notes are an integral part of this financial statement.

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2016

Data Control Codes	10	50	98	Total Governmental Funds	
	General	Debt Service	Other Governmental		
ASSETS					
1110	Cash and cash equivalents	\$ 6,087,755	\$ 4,462,257	\$ 86,815	\$ 10,636,827
1220	Delinquent property taxes receivable	336,848	118,777	-	455,625
1230	Allowance for uncollectible taxes	(117,897)	(41,572)	-	(159,469)
1240	Due from other governments	4,080,725	135,156	260,189	4,476,070
1260	Due from other funds	164,630	-	-	164,630
1290	Other receivables	453,098	48,102	-	501,200
1000	Total assets	<u>11,005,159</u>	<u>4,722,720</u>	<u>347,004</u>	<u>16,074,883</u>
LIABILITIES					
2110	Accounts payable	387,595	-	14,846	402,441
2150	Payroll deductions and withholdings	5,712	-	-	5,712
2160	Accrued wages	1,448,333	-	122,781	1,571,114
2170	Due to other funds	-	-	159,825	159,825
2200	Accrued expenditures	114,086	-	18,171	132,257
2300	Unearned revenue	4,620	-	16,674	21,294
2000	Total liabilities	<u>1,960,346</u>	<u>-</u>	<u>332,297</u>	<u>2,292,643</u>
DEFERRED INFLOWS OF RESOURCES					
2610	Unavailable revenue	450,727	96,545	-	547,272
2600	Total deferred inflows of resources	<u>450,727</u>	<u>96,545</u>	<u>-</u>	<u>547,272</u>
FUND BALANCES					
Restricted:					
3450	Food service	-	-	3,209	3,209
3480	Debt service	-	4,626,175	-	4,626,175
3545	Committed - other	-	-	11,498	11,498
3600	Unassigned	8,594,086	-	-	8,594,086
3000	Total fund balances	<u>8,594,086</u>	<u>4,626,175</u>	<u>14,707</u>	<u>13,234,968</u>
4000	Total liabilities, deferred inflows of resources and fund balances	<u>\$ 11,005,159</u>	<u>\$ 4,722,720</u>	<u>\$ 347,004</u>	<u>\$ 16,074,883</u>

The accompanying notes are an integral part of this financial statement.

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2016

Total fund balances - governmental funds	\$ 13,234,968
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	56,863,886
Uncollected property taxes are reported as unavailable resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.	357,811
Uncollected SHARS settlements are reported as unavailable resources in the governmental funds balance sheet, but are recognized as a revenue in the statement of activities.	189,461
Long-term liabilities, including compensated absences, retainage, capital lease, bonds and tax notes payable, are not due and payable in the current period and therefore are not reported in the funds. Also, the loss on refunding of bonds and the premium on issuance of bonds payable are not reported in the funds.	(44,145,323)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(699,917)
Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of \$3,760,427, a deferred resource inflow related to TRS in the amount of \$619,017, and a deferred resource outflow related to TRS in the amount of \$2,471,880.	<u>(1,907,564)</u>
Net position of governmental activities	<u>\$ 23,893,322</u>

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

Data Control Codes	10	50	98	Total	
	General	Debt Service	Other Governmental	Governmental Funds	
REVENUES					
5700	Local and intermediate sources	\$ 7,150,995	\$ 3,124,852	\$ 563,256	\$ 10,839,103
5800	State programs	12,941,257	1,093,284	205,875	14,240,416
5900	Federal programs	208,353	-	1,265,998	1,474,351
5020	Total revenues	<u>20,300,605</u>	<u>4,218,136</u>	<u>2,035,129</u>	<u>26,553,870</u>
EXPENDITURES					
Current:					
0011	Instruction	10,679,832	-	831,227	11,511,059
0012	Instructional resources and media services	193,013	-	-	193,013
0013	Curriculum and staff development	29,281	-	48,112	77,393
0021	Instructional leadership	239,754	-	85	239,839
0023	School leadership	1,271,607	-	-	1,271,607
0031	Guidance, counseling, and evaluation services	619,424	-	120,031	739,455
0033	Health services	189,568	-	-	189,568
0034	Student transportation	599,385	-	-	599,385
0035	Food service	-	-	1,032,053	1,032,053
0036	Extracurricular activities	854,076	-	-	854,076
0041	General administration	769,235	-	15	769,250
0051	Facilities maintenance and operations	2,241,221	-	106,028	2,347,249
0052	Security and monitoring services	55,363	-	-	55,363
0053	Data processing services	38,191	-	-	38,191
Debt service:					
0071	Principal on long-term debt	300,091	1,685,000	-	1,985,091
0072	Interest on long-term debt	14,452	1,787,479	-	1,801,931
0073	Bond issuance costs and fees	-	161,447	-	161,447
0081	Capital outlay	1,733,674	-	-	1,733,674
0099	Other intergovernmental charges	136,211	-	-	136,211
6030	Total expenditures	<u>19,964,378</u>	<u>3,633,926</u>	<u>2,137,551</u>	<u>25,735,855</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>336,227</u>	<u>584,210</u>	<u>(102,422)</u>	<u>818,015</u>
OTHER FINANCING SOURCES (USES)					
7901	Refunding bonds issued	-	8,545,000	-	8,545,000
7916	Premium on issuance of bonds	-	1,309,021	-	1,309,021
8940	Payment to bond refunding escrow agent	-	(9,694,520)	-	(9,694,520)
7080	Total other financing sources (uses)	-	159,501	-	159,501
8912	SPECIAL ITEM	<u>1,234,594</u>	<u>-</u>	<u>-</u>	<u>1,234,594</u>
1200	NET CHANGE IN FUND BALANCES	1,570,821	743,711	(102,422)	2,212,110
0100	FUND BALANCES, BEGINNING	<u>7,023,265</u>	<u>3,882,464</u>	<u>117,129</u>	<u>11,022,858</u>
3000	FUND BALANCES, ENDING	<u>\$ 8,594,086</u>	<u>\$ 4,626,175</u>	<u>\$ 14,707</u>	<u>\$ 13,234,968</u>

The accompanying notes are an integral part of this financial statement.

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CHINA SPRING 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 JUNE 30, 2016

Net change in fund balances - total governmental funds \$ 2,212,110

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 86,249

In the statement of activities, only the gain or loss on the sale of capital assets is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the book value of the capital asset sold. (197,066)

Property tax and SHARS settlement revenues that do not provide current financial resources are not reported as revenues in the funds. (16,060)

Bond, tax note and capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond, tax note, and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceeded repayments. 1,825,590

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (154,275)

Certain expenditures are de-expended in the government-wide financial statements and recorded as deferred resource outflows. These contributions made after the measurement date of August 31, 2015, caused the change in the ending net position to increase in the amount of \$281,874. Contributions made before the measurement but during the fiscal year 2014 were also expended in fiscal year 2015 and recorded as an increase in net pension expense for the District. This caused a decrease in the change in net position totaling \$261,855. The District's proportionate share of the TRS pension expense on the plan as a whole had to be recorded. The net position expense decreased the change in net position by \$375,827. (355,808)

Change in net position of governmental activities \$ 3,400,740

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2016

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>291,275</u>
Total assets	\$ <u><u>291,275</u></u>
LIABILITIES	
Due to student groups	\$ 286,470
Due to other funds	<u>4,805</u>
Total liabilities	\$ <u><u>291,275</u></u>

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

China Spring 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 financial statements in conformity with generally accepted accounting principles and it complies with the requirements of the appropriate version of Texas Education Agency’s *Financial Accountability System Resource Guide* (the “Resource Guide”).

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. There are no component units included within the reporting entity.

The China Spring Education Foundation (the “Foundation”), a not-for-profit entity, was organized to provide scholarship funds, is a “related organization” of the District.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. All fiduciary activities are reported only in the fund financial statements. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities* are supported by taxes, state foundation funds and intergovernmental revenue.

The fund financial statements provide reports on the financial condition and results of operations for two fund categories – governmental 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.

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue 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 are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if it is collectible within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt services expenditures, as well as expenditures related to claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt is reported as other financing sources.

Property taxes, state foundation funds, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. Entitlements are recorded as revenue when all eligibility requirements are met, including any time requirements, and the amount received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the District.

The agency fund has no measurement focus, but utilizes the accrual basis of accounting for reporting assets and liabilities.

The District reports the following major governmental funds:

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

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

Additionally, the District reports the following fund type:

The ***Agency Fund*** accounts for resources held for others in a custodial capacity. The District's Agency Fund is Student Activities.

During the course of operations the District has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in the governmental activities are eliminated.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position or Fund Balance

1. Deposits and Investments

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the District are reported at fair value, except for the position in investment pools. The District's investments in Pools are 2a7-like pools and are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

2. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." All interfund transactions between governmental funds are eliminated on the government-wide financial statements.

The property tax receivable allowance is equal to 35% of outstanding property taxes at June 30, 2016.

3. Capital Assets

Capital assets, which include land, buildings, furniture and equipment, are reported in the governmental activities column in the financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire an asset with equivalent service potential at the acquisition date.

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

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

Assets	Years
Buildings and improvements	20-50
Portable buildings	20
Vehicles	5
Furniture and equipment	5-10

4. *Compensated Absences*

The District’s policy state that employees hired on a 12-month contract shall earn 12 days of vacation leave per year in accordance with administrative regulations. Vacation leave shall accrue at the rate of one day per month, beginning on July 1 and ending on June 30. Employees hired on July 1, 2012 and thereafter shall be permitted to accrue a maximum of 24 days. If the employee separates from the District, the employee shall be paid at his or her daily rate up to a maximum of ten days. Employees hired prior to July 1, 2012 that exceed the 24 day maximum accrual rate, shall not exceed that accrual amount. If the employee separates from the District, the employee shall be paid at his or her daily rate up to a maximum of 20 days.

5. *Long-term Obligations*

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts 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.

6. *Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statements 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. The District has two items that qualify for reporting in this category. They are a deferred charge on refunding and deferred outflow related to TRS reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The item related to TRS represents the District's share of the unrecognized plan deferred outflow of resources which TRS uses in calculating the ending net pension liability.

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 or 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 two types of inflows, which arise only under a modified accrual basis of accounting that qualifies for reporting in this category. The governmental funds report unavailable revenues from one source: property taxes. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The District also recognizes their share of the unrecognized TRS plan deferred inflows of resources which TRS uses in calculating the ending net pension liability.

7. *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.

8. *Net Position*

Net position represents the difference between assets, deferred outflows (inflows) of resources and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

9. Net Position Flow Assumption

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

10. Fund Balance Flow Assumption

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

11. Fund Balance Policies

Fund balance of the governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The District itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the District’s highest level of decision-making authority. The Board of Trustees is the highest level of decision-making authority for the District that can, by adoption of a resolution prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the resolution remains in place until a similar action is taken (the adoption of another resolution) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the District for specific purposes but do not meet the criteria to be classified as committed. The Board of Trustees has not delegated the authority to assign fund balance. The Board of Trustees may assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year’s appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

12. Program Revenue

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

13. Property Taxes

Property taxes are levied as of October 1 on property values assessed 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 following year. On January 31 of each year, a tax lien attaches to property to secure payment of all taxes, penalties, and interest ultimately imposed.

14. Data Control Codes

The Data Control Codes refer to the account code structure prescribed by the Texas Education Agency (“TEA”) in the *Financial Accountability System Resource Guide*. TEA 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, policy development and funding plans.

15. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

The amount of state foundation revenue a school district earns for a year can and does vary until the time when final values for each of the factors in the formula become available. Availability can be as late as midway into the next fiscal year. It is at least reasonably possible that the foundation revenue estimates as of June 30, 2016, will change.

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U. S. Treasury, certain U. S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) investment pools, (9) guaranteed investment contracts, and (10) common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

As of June 30, 2016, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
TexPool	\$ 387,646	45
LOGIC	1,763,813	33
Texas Term Texas Daily	4,459,192	72
Texas CLASS	1,501,677	56

Custodial Credit Risk

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of June 30, 2016, the District's deposit balance was collateralized with securities held by the pledging financial institution in the District's name or covered by FDIC insurance.

Credit Risk

It is the District's policy to limit its investments to investment types with an investment quality rating not less than A or its equivalent by a nationally recognized statistical rating organization. The District's investment pools are rated as follows by Standard and Poor's Investors Service.

TexPool	AAAm
LOGIC	AAAm
Texas Term	AAAf
Texas CLASS	AAAm

Public Funds Investment Pools

Public funds investment pools in Texas (“Pools”) are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the “Act”), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one-half of one percent of the value of its shares.

B. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the state through the School Foundation and Per Capita Programs. Amounts due from local, federal and state governments as of June 30, 2016, are summarized below.

	<u>Grants</u>	<u>State Entitlements</u>
General fund	\$ -	\$ 4,080,725
Debt service fund	-	135,156
Nonmajor governmental funds	<u>260,189</u>	<u>-</u>
	<u>\$ 260,189</u>	<u>\$ 4,215,881</u>

C. Interfund Balances

The composition of interfund balances as of June 30, 2016, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Agency	\$ 4,805
General fund	Nonmajor governmental	<u>159,825</u>
		<u>\$ 164,630</u>

Balances resulted from the lag between the dates that payments for expenditures are made and the date a granting agency reimbursed the District.

D. Other Receivables

Other receivables consisted of the following balances as of June 30, 2016:

	General	Debt Service	Total
Property tax penalties and interest	\$ 161,663	\$ 74,003	\$ 235,666
SHARS	189,461	-	189,461
Education Co-op of Central Texas	111,056	-	111,056
Time Warner E-Rate discount	32,401	-	32,401
Other	15,099	-	15,099
Allowance for uncollectibles	<u>(56,582)</u>	<u>(25,901)</u>	<u>(82,483)</u>
Total, net	<u>\$ 453,098</u>	<u>\$ 48,102</u>	<u>\$ 501,200</u>

E. Capital Assets

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

	Beginning Balance 06/30/15	Increases	Decreases	Ending Balance 06/30/16
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 752,591	\$ -	\$(55,100)	\$ 697,491
Construction in progress	<u>312,416</u>	<u>1,293,672</u>	<u>(312,416)</u>	<u>1,293,672</u>
Total capital assets, not being depreciated	<u>1,065,007</u>	<u>1,293,672</u>	<u>(367,516)</u>	<u>1,991,163</u>
Capital assets, being depreciated:				
Buildings and improvements	68,528,682	938,199	(286,800)	69,180,081
Machinery and equipment	<u>3,305,781</u>	<u>-</u>	<u>(5,264)</u>	<u>3,300,517</u>
Total capital assets, being depreciated	<u>71,834,463</u>	<u>938,199</u>	<u>(292,064)</u>	<u>72,480,598</u>
Less accumulated depreciation for:				
Buildings and improvements	(14,352,985)	(1,420,442)	144,834	(15,628,593)
Machinery and equipment	<u>(1,571,782)</u>	<u>(398,706)</u>	<u>5,264</u>	<u>(1,965,224)</u>
Total accumulated depreciation	<u>(15,924,767)</u>	<u>(1,819,148)</u>	<u>150,098</u>	<u>(17,593,817)</u>
Total capital assets, being depreciated, net	<u>55,909,696</u>	<u>(880,949)</u>	<u>(141,966)</u>	<u>54,886,781</u>
Total capital assets, net	<u>\$ 56,974,703</u>	<u>\$ 412,723</u>	<u>\$(509,482)</u>	<u>\$ 56,877,944</u>

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

Governmental activities:	
Instruction	\$ 952,002
Instructional resources media services	27,911
Curriculum and staff development	2,501
Instructional leadership	2,501
School leadership	66,030
Guidance counseling and evaluation services	27,911
Health services	15,206
Student pupil transportation	317,415
Food services	54,537
Co-curricular/extracurricular	143,207
General administration	47,012
Plant maintenance and operations	161,965
Security and monitoring services	<u>950</u>
 Total depreciation expense - governmental activities	 <u>\$ 1,819,148</u>

F. Deferred Outflows and Inflows of Resources

At June 30, 2016, 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:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Total net amounts per August 31, 2015, measurement date	\$ 2,190,006	\$ 619,017
Contributions paid to TRS subsequent to the measurement date	<u>281,874</u>	<u>-</u>
Totals	<u>\$ 2,471,880</u>	<u>\$ 619,017</u>

At year-end the District reported deferred inflows for the following:

	<u>General Fund</u>	<u>Debt Service Fund</u>
Unavailable - property taxes	\$ 261,266	\$ 96,545
Unavailable - SHARS	<u>189,461</u>	<u>-</u>
Totals	<u>\$ 450,727</u>	<u>\$ 96,545</u>

G. Long-term Debt

Governmental long-term liability activity for the year ended June 30, 2016, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable	\$ 44,145,000	\$ 8,545,000	\$ 10,825,000	\$ 41,865,000	\$ 1,610,000
Premium/discount on bonds	1,427,309	1,309,021	176,538	2,559,792	176,538
Tax notes	1,025,000	-	233,000	792,000	142,000
Capital leases	306,940	-	67,091	239,849	58,539
Retainage payable	50,000	14,058	-	64,058	64,058
Net pension liability	1,479,971	2,595,454	314,998	3,760,427	-
Compensated absences	-	121,952	-	121,952	24,390
Total	<u>\$ 48,434,220</u>	<u>\$ 12,585,485</u>	<u>\$ 11,616,627</u>	<u>\$ 49,403,078</u>	<u>\$ 2,075,525</u>

Retainage payable will be paid from the capital projects fund and general fund. The net pension liability and compensated absences are generally paid from the General Fund and appropriate Special Revenue Funds.

A summary of bonds, tax notes and capital leases that are outstanding at year-end are as follows:

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Balance Outstanding at Year-End	Amounts Due in One Year
Bonds:					
Unlimited Tax					
2006 Refunding Bonds	3.72% to 4.0%	\$ 9,239,998	\$ 318,665	\$ 7,760,000	\$ 355,000
Unlimited Tax School					
Building Bonds Series 2007	4.0% to 5.0%	21,999,939	897,420	1,550,000	505,000
Unlimited Tax					
Refunding Bonds Series 2011	1.0% to 3.0%	3,605,000	34,050	1,265,000	630,000
Unlimited Tax School					
Building Bonds Series 2013	2.0% to 5.0%	15,210,000	351,619	14,945,000	120,000
Unlimited Tax					
Refunding Bonds Series 2015	2.0% to 4.0%	7,910,000	210,706	7,800,000	-
Unlimited Tax					
Refunding Bonds Series 2016	3.0% to 4.0%	8,545,000	-	8,545,000	-
Limited Maintenance					
Tax Notes:					
Series 2014	2.0% to 4.0%	460,000	4,979	277,000	92,000
Series 2015	2.0%	565,000	9,474	515,000	50,000
Capital Lease:					
Dell - Wireless Project	4.6%	306,940	-	239,849	58,539
Totals			<u>\$ 1,826,913</u>	<u>\$ 42,896,849</u>	<u>\$ 1,810,539</u>

During each year while bonds are outstanding, the District is required to levy and collect sufficient property taxes to provide for the payment of principal and interest as it becomes due. The revenue and bond payments are accounted for in the Debt Service Fund.

Bond service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2017	\$ 1,610,000	\$ 1,717,192	\$ 3,327,192
2018	1,330,000	1,662,698	2,992,698
2019	1,720,000	1,606,390	3,326,390
2020	1,420,000	1,544,753	2,964,753
2021	1,695,000	1,490,778	3,185,778
2022-2026	9,235,000	6,448,306	15,683,306
2027-2031	8,770,000	4,630,046	13,400,046
2032-2036	6,250,000	3,081,238	9,331,238
2037-2041	5,690,000	1,775,250	7,465,250
2042-2044	4,145,000	317,625	4,462,625
Total	<u>\$ 41,865,000</u>	<u>\$ 24,274,276</u>	<u>\$ 66,139,276</u>

There are a number of limitations and restrictions contained in the general obligation bond indenture. Management has indicated that the District is in compliance with all significant limitations and restrictions at June 30, 2016.

Tax note debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2017	\$ 142,000	\$ 15,356	\$ 157,356
2018	147,000	13,532	160,532
2019	148,000	11,288	159,288
2020	150,000	8,674	158,674
2021	55,000	6,660	61,660
2022-2026	<u>245,000</u>	<u>13,764</u>	<u>258,764</u>
Total	<u>\$ 887,000</u>	<u>\$ 69,274</u>	<u>\$ 956,274</u>

Refunding of Debt

As of June 30, 2016, outstanding balances of bond issues that have been refunded and defeased in-substance by placing existing assets and the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments include the Unlimited Tax School Building Bonds, Series 2007 in the amount of \$9,140,000.

The District issued \$8,545,000 of unlimited tax refunding bonds to provide resources to purchase U.S. Treasury and Agency securities that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of \$9,140,000 of unlimited tax bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net position. The reacquisition price exceeded the net carrying amount of the old debt by \$554,520. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt, which is shorter than the life of the new debt issued. This refunding was undertaken to decrease total debt service payments over 17 years by \$1,471,288 and resulted in an economic gain of \$1,310,517.

Capital Leases

The District has acquired certain capital assets through the use of lease purchase agreements. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired through capital leases are as follows:

Dell equipment	\$	306,940
Less: accumulated depreciation	(<u>30,694</u>)
Net value	\$	<u><u>276,246</u></u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2016, were as follows:

Year Ending June 30,	Governmental Activities
2017	\$ 67,091
2018	67,091
2019	67,091
2020	<u>67,091</u>
Total minimum lease payments	268,364
Less: amount representing interest	(<u>28,515</u>)
Present value of minimum lease payments	<u><u>\$ 239,849</u></u>

H. Fund Balance

As of June 30, 2016, governmental fund balance is composed of the following:

Fund Balance Classification	General	Debt Service	Other Governmental	Totals
Restricted:				
Retirement of long-term debt	\$ -	\$ 4,626,175	\$ -	\$ 4,626,175
Food Service	-	-	3,209	3,209
Committed - campus activities	-	-	11,498	11,498
Unassigned	<u>8,594,086</u>	<u>-</u>	<u>-</u>	<u>8,594,086</u>
Total governmental fund balance	<u>\$ 8,594,086</u>	<u>\$ 4,626,175</u>	<u>\$ 14,707</u>	<u>\$ 13,234,968</u>

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

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

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

Benefits Provided. TRS provides service and disability retirement, as well as death and survivor benefits, to eligible employees (and their beneficiaries) of public and higher education in Texas. The pension formula is calculated using 2.3 percent (multiplier) times the average of the five highest annual creditable salaries times years of credited service to arrive at the annual standard annuity except for members who are grandfathered, which uses the three highest annual salaries. 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	
	2015	2016
Member	6.7%	7.2%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2016 Employer Contributions		\$ 330,314
2016 Member Contributions		914,761
2015 NECE On-behalf Contributions		686,393

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

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member’s first 90 days of employment.

- When any part or all of an employee’s salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

In addition to the employer contributions listed above, 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 or charter school does not contribute to the Federal Old-Age, Survivors and Disability Insurance (OASDI) Program for certain employees, they must contribute 1.5% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

Valuation Date	8/31/2015
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.50%
Benefit Changes During the Year	None
Ad Hoc Post-Employment Benefit Changes	None

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

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

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

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

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

	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:	\$ 5,891,880	\$ 3,760,427	\$ 1,985,059

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2016, the District's liability was \$3,760,427 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	\$ 3,760,427
State's proportionate share that is associated with the District	<u>8,191,666</u>
Total	<u>\$ 11,952,093</u>

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

At August 31, 2015 the employer's proportion of the collective net pension liability was 0.0106381% which was an increase of .0050975% from its proportion measured as of August 31, 2014.

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

Economic Assumptions:

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

Mortality Assumptions:

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

Other Demographic Assumptions:

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

Actuarial Methods and Policies:

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

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

For the year ended June 30, 2016, the District's pension expense was \$1,167,181 and revenue of \$1,167,181 for support provided by the State.

At June 30, 2016, the District's proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 19,035	\$ 144,517
Changes in actuarial assumptions	80,006	134,156
Difference between projected and actual investment earnings	926,109	339,255
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	<u>1,164,856</u>	<u>1,089</u>
Total	<u>\$ 2,190,006</u>	<u>\$ 619,017</u>

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

Year Ended June30,	Pension Expense Amount
2017	\$ 288,421
2018	288,421
2019	288,421
2020	401,508
2021	168,787
Thereafter	135,431

J. Health Care Coverage

During the period ended June 30, 2016, employees of the District were covered by a state-wide health care plan, TRS Active Care. The District's participation in this plan is renewable annually. The District paid into the Plan \$300 per month per employee. Employees, at their option, pay premiums for any coverage above these amounts as well as for dependent coverage.

The Teachers Retirement System (TRS) manages TRS Active Care. The medical plan is administered by Blue Cross and Blue Shield of Texas, FIRSTCARE and Scott and White HMO. Medco Health administers the prescription drug plan. The latest financial information on the state-wide plan may be obtained by writing to the TRS Communications Department, 1000 Red River Street, Austin, Texas 78701, by calling the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Internet website, www.trs.state.tx.us, under the TRS Publications heading.

K. Retiree Health Plan

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

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. Funding for free basic coverage is provided by the program based upon public school district payroll. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. Funding for optional coverage is provided by those participants selecting the optional coverage. Contribution rates and amounts are shown in the table below for fiscal years 2015-2017.

Year	Contribution Rates and Amounts					
	Active Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2014	0.65%	\$ 75,122	1.00%	\$ 115,572	0.55%	\$ 63,565
2015	0.65%	79,580	1.00%	121,836	0.55%	67,337
2016	0.65%	76,527	1.00%	128,453	0.55%	70,650

Medicare Part D – On-behalf Payments. The Medicare Prescription Drug, Improvement, and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the Texas Public School Retired Employee Group Insurance Program (TRS-Care) to receive retiree drug subsidy payments from the federal government to offset certain prescription drug expenditures for eligible TRS-Care participants. These on-behalf payments of \$41,250, \$52,742, and \$31,222 were recognized for the years ended June 30, 2016, 2015, and 2014, respectively, as equal revenues and expenditures.

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

M. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal 2016, the District purchased commercial insurance to cover general liabilities. There were no significant reductions in coverage in the current fiscal year, and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

Unemployment Compensation Pool

During the school year ended June 30, 2016, China Spring ISD provided unemployment compensation coverage to its employees through participation in the TASB Risk Management Fund (the Fund). The Fund was created and is operated under the provisions of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code. The Fund's Unemployment Compensation Program is authorized by Section 22.005 of the Texas Education Code and Chapter 172 of the Texas Local Government Code. All members participating in the Fund execute Interlocal Agreements that define the responsibilities of the parties.

The Fund meets its quarterly obligation to the Texas Workforce Commission. Expenses are accrued monthly until the quarterly payment has been made. Expenses can be reasonably estimated; therefore there is no need for specific or aggregate stop loss coverage for the Unemployment Compensation pool. For the year ended June 30, 2016, the Fund anticipates that China Spring ISD had no additional liability beyond the contractual obligation for payment of contribution.

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

N. Subsequent Event

On July 25, 2016, the CSISD Board authorized the refinancing on Series 2016A Bonds. With the transaction the District will save approximately \$988,118 in payments over the course of the payment schedule for this bond payment. Through work with the District financial advisors the District was able to lower the interest rate on these bonds from 4.04% to 1.62% which resulted in the savings.

P. Special Item

The District sold property to the State of Texas. This property consisted of 0.378 acres (16,447 square feet) located at 6301 Sylvia Avenue, Waco, Texas 76708. A payment in the amount of \$1,123,538 was received from the Texas Department of Transportation in exchange for the land. The District also received the final payment from the dissolved shared service arrangement with the Education Co-op of Central Texas in the amount of \$111,056. These two items were included as special items in the General Fund in the amount of \$1,234,594.

The special item reported as \$1,037,528 in the governmental activities was a result of a gain on the sale of land in the amount of \$926,472 and \$111,056 received as a result of the share service arrangement dissolving.

REQUIRED SUPPLEMENTARY INFORMATION

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

Data Control Codes	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)	
	Original	Final			
REVENUES					
5700	Local and intermediate sources	\$ 7,056,206	\$ 7,142,839	\$ 7,150,995	\$ 8,156
5800	State programs	11,713,231	12,623,231	12,941,257	318,026
5900	Federal program	182,808	182,808	208,353	25,545
5020	Total revenues	<u>18,952,245</u>	<u>19,948,878</u>	<u>20,300,605</u>	<u>351,727</u>
EXPENDITURES					
Current:					
0011	Instruction	10,999,803	11,002,984	10,679,832	323,152
0012	Instructional resources and media sources	193,300	200,800	193,013	7,787
0013	Curriculum and staff development	58,963	58,731	29,281	29,450
0021	Instructional leadership	261,015	260,215	239,754	20,461
0023	School leadership	1,299,306	1,299,306	1,271,607	27,699
0031	Guidance, counseling, and evaluation services	617,769	623,769	619,424	4,345
0033	Health services	190,739	190,739	189,568	1,171
0034	Student transportation	706,683	706,683	599,385	107,298
0036	Extracurricular activities	824,364	885,819	854,076	31,743
0041	General administration	779,005	795,005	769,235	25,770
0051	Facilities maintenance and operations	2,265,191	2,394,191	2,241,221	152,970
0052	Security and monitoring services	49,498	56,198	55,363	835
0053	Data processing services	41,000	41,000	38,191	2,809
Debt service:					
0071	Principal on long-term debt	205,091	300,091	300,091	-
0072	Interest on long-term debt	13,826	14,826	14,452	374
0073	Bond issuance costs and fees	1,000	1,000	-	1,000
0081	Capital outlay	294,192	2,313,253	1,733,674	579,579
0099	Other governmental charges	151,500	151,500	136,211	15,289
6030	Total expenditures	<u>18,952,245</u>	<u>21,296,110</u>	<u>19,964,378</u>	<u>1,331,732</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(1,347,232)</u>	<u>336,227</u>	<u>1,683,459</u>
7918	SPECIAL ITEM	<u>-</u>	<u>-</u>	<u>1,234,594</u>	<u>1,234,594</u>
1200	NET CHANGE IN FUND BALANCES	<u>-</u>	<u>(1,347,232)</u>	<u>1,570,821</u>	<u>2,918,053</u>
0100	FUND BALANCES, BEGINNING	<u>7,023,265</u>	<u>7,023,265</u>	<u>7,023,265</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ 7,023,265</u>	<u>\$ 5,676,033</u>	<u>\$ 8,594,086</u>	<u>\$ 2,918,053</u>

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY
TEACHER RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2016

Fiscal year*	<u>2015</u>	<u>2016</u>
District's proportion of the net pension liability (asset)	0.0055406%	0.0106381%
District's proportionate share of the net pension liability (asset)	\$ 1,479,971	\$ 3,760,427
State's proportionate share of the net pension liability (asset) associated with the District	<u>6,980,672</u>	<u>8,191,666</u>
Total	<u>\$ 8,460,643</u>	<u>\$ 11,952,093</u>
District's covered-employee payroll	\$ 11,664,510	\$ 12,280,369
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	12.69%	30.62%
Plan fiduciary net position as a percentage of the total pension liability	83.25%	78.43%

* The amounts presented for each fiscal year were determined as of August 31.

Information for the previous 8 years is not available. GASB 68 was implemented in fiscal year 2015.

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2016

Fiscal year*	<u>2015</u>	<u>2016</u>
Contractually required contribution	\$ 297,483	\$ 330,314
Contributions in relation to the contractually required contribution	<u>(297,483)</u>	<u>(330,314)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 12,183,559	\$ 12,845,256
Contribution as a percentage of covered-employee payroll	2.44%	2.57%

* The amounts presented for each fiscal year were determined as of June 30.

Information for the previous 8 years is not available. GASB 68 was implemented in fiscal year 2015.

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

Budgetary Information

The Board of Trustees adopts an “appropriated budget” for the General Fund, Debt Service Fund and the National School Breakfast and Lunch Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenue and expenditures for each of these funds. The District compares the final amended budget to actual revenue and expenditures. The District presented the General Fund budgetary comparison schedule as required supplementary information. The National School Breakfast and Lunch Fund and Debt Service Fund budgetary comparison schedules are presented as required TEA schedules.

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

1. Prior to June 20, the District prepares a budget for the next succeeding fiscal year beginning July 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least 10 days’ public notice of the meeting must be given.
3. Prior to July 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year-end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year. However, none of these were significant.
4. Each budget is controlled by the budget coordinator at the revenue and expenditure function/object level. Budgeted amounts are as amended by the Board. All budget appropriations lapse at year-end.
5. Encumbrances for goods or purchased services are documented by purchase orders or contracts. Under Texas law, appropriations lapse at June 30, and encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year’s budget. The District had no outstanding end-of-year encumbrances.

COMBINING STATEMENTS

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2016

	Special Revenue Funds				
	211	224	225	240	244
	ESEA Title I, A Improving Basic Program	IDEA Part B Formula	IDEA Part B Preschool	National Breakfast and Lunch Program	CATE Carl Perkins
ASSETS					
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 75,317	\$ -
Due from other governments	<u>48,138</u>	<u>191,099</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>48,138</u>	<u>191,099</u>	<u>-</u>	<u>75,317</u>	<u>-</u>
 LIABILITIES					
Accounts payable	90	-	-	8,892	-
Accrued wages	17,451	60,706	-	40,642	-
Due to other funds	28,281	120,822	-	-	-
Accrued expenditures	2,316	9,571	-	5,900	-
Unearned revenue	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,674</u>	<u>-</u>
Total liabilities	<u>48,138</u>	<u>191,099</u>	<u>-</u>	<u>72,108</u>	<u>-</u>
 FUND BALANCES					
Restricted	-	-	-	3,209	-
Committed - other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,209</u>	<u>-</u>
 Total liabilities and fund balances	<u>\$ 48,138</u>	<u>\$ 191,099</u>	<u>\$ -</u>	<u>\$ 75,317</u>	<u>\$ -</u>

Special Revenue Funds				
255	410	461	699	
ESEA Title II, A Training and Recruiting	State Textbook	Campus Activity	Capital Projects	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 11,498	\$ -	\$ 86,815
<u>2,476</u>	<u>18,476</u>	<u>-</u>	<u>-</u>	<u>260,189</u>
<u>2,476</u>	<u>18,476</u>	<u>11,498</u>	<u>-</u>	<u>347,004</u>
455	5,409	-	-	14,846
-	3,982	-	-	122,781
2,021	8,701	-	-	159,825
-	384	-	-	18,171
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>16,674</u>
<u>2,476</u>	<u>18,476</u>	<u>-</u>	<u>-</u>	<u>332,297</u>
-	-	-	-	3,209
<u>-</u>	<u>-</u>	<u>11,498</u>	<u>-</u>	<u>11,498</u>
<u>-</u>	<u>-</u>	<u>11,498</u>	<u>-</u>	<u>14,707</u>
<u>\$ 2,476</u>	<u>\$ 18,476</u>	<u>\$ 11,498</u>	<u>\$ -</u>	<u>\$ 347,004</u>

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**

NONMAJOR GOVERNMENTAL FUNDS

FOR THE YEAR ENDED JUNE 30, 2016

	Special Revenue Funds				
	211	224	225	240	244
	ESEA Title I, A Improving Basic Program	IDEA Part B Formula	IDEA Part B Preschool	National Breakfast and Lunch Program	CATE Carl Perkins
REVENUES					
Local and intermediate sources	\$ -	\$ -	\$ -	\$ 562,844	\$ -
State programs	-	-	-	25,381	-
Federal programs	<u>241,153</u>	<u>524,772</u>	<u>4,347</u>	<u>447,037</u>	<u>18,266</u>
Total revenues	<u>241,153</u>	<u>524,772</u>	<u>4,347</u>	<u>1,035,262</u>	<u>18,266</u>
EXPENDITURES					
Current:					
Instruction	223,379	404,741	4,347	-	18,266
Curriculum and instructional staff development	17,774	-	-	-	-
Instructional leadership	-	-	-	-	-
Guidance, counseling, and evaluating services	-	120,031	-	-	-
Facilities maintenance and operations	-	-	-	-	-
Food services	-	-	-	1,032,053	-
Administrative Support Services	-	-	-	-	-
Total expenditures	<u>241,153</u>	<u>524,772</u>	<u>4,347</u>	<u>1,032,053</u>	<u>18,266</u>
NET CHANGE IN FUND BALANCES	-	-	-	3,209	-
FUND BALANCES, BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,209</u>	<u>\$ -</u>

Special Revenue Funds				
255	410	461	699	
ESEA Title II, A Training and Recruiting	State Textbook Fund	Campus Activity	Capital Projects	Total Nonmajor Governmental
\$ -	\$ -	\$ 295	\$ 117	\$ 563,256
-	180,494	-	-	205,875
<u>30,423</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,265,998</u>
<u>30,423</u>	<u>180,494</u>	<u>295</u>	<u>117</u>	<u>2,035,129</u>
-	180,494	-	-	831,227
30,338	-	-	-	48,112
85	-	-	-	85
-	-	-	-	120,031
-	-	-	106,028	106,028
-	-	-	-	1,032,053
-	-	15	-	15
<u>30,423</u>	<u>180,494</u>	<u>15</u>	<u>106,028</u>	<u>2,137,551</u>
-	-	280	(105,911)	(102,422)
<u>-</u>	<u>-</u>	<u>11,218</u>	<u>105,911</u>	<u>117,129</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,498</u>	<u>\$ -</u>	<u>\$ 14,707</u>

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REQUIRED TEA SCHEDULES

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2016

Last Ten Years Ended June 30,	1	2	3	10	20
	Tax Rates		Net Assessed/ Appraised Value for School Tax Purpose	Beginning Balance 07/01/15	Current Year's Total Levy
	Maintenance	Debt Service			
2007 and prior years	various	various	various	\$ 63,395	\$ -
2008	1.288800	0.450000	455,846,414	14,134	-
2009	1.000000	0.389640	503,653,997	15,455	-
2010	1.040000	0.397240	527,948,499	19,885	-
2011	1.040000	0.367000	553,420,185	24,345	-
2012	1.040000	0.371400	571,453,592	30,802	-
2013	1.040000	0.334402	599,892,390	32,761	-
2014	1.040000	0.500000	624,769,481	54,672	-
2015	1.040000	0.498834	641,169,223	193,674	-
2016 (School year under audit)	1.040000	0.476070	656,528,590	-	<u>9,953,433</u>
1000 Totals				<u>\$ 449,123</u>	<u>\$ 9,953,433</u>

EXHIBIT J-1

31	32	40	50
<u>Maintenance Total Collections</u>	<u>Debt Service Total Collections</u>	<u>Entire Year's Adjustments</u>	<u>Ending Balance 06/30/16</u>
\$ 1,125	\$ 197	\$(5,848)	\$ 56,225
1,486	669	-	11,979
1,398	524	-	13,533
2,217	847	-	16,821
1,465	517	-	22,363
2,000	714	-	28,088
7,223	2,323	-	23,215
18,527	8,907	(18)	27,220
87,172	41,812	(17,181)	47,509
<u>6,615,702</u>	<u>3,028,389</u>	<u>(100,669)</u>	<u>208,673</u>
<u>\$ 6,738,315</u>	<u>\$ 3,084,899</u>	<u>\$(123,716)</u>	<u>\$ 455,626</u>

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - NATIONAL SCHOOL BREAKFAST AND LUNCH PROGRAM
FOR THE YEAR ENDED JUNE 30, 2016

		Budgeted Amounts		Actual	Variance with
		Original	Final	Amounts	Final Budget
				Positive	
				(Negative)	
REVENUES					
5700	Local and intermediate sources	\$ 485,000	\$ 620,000	\$ 562,844	\$(57,156)
5800	State programs	24,293	24,293	25,381	1,088
5900	Federal programs	<u>390,000</u>	<u>390,000</u>	<u>447,037</u>	<u>57,037</u>
5020	Total revenues	<u>899,293</u>	<u>1,034,293</u>	<u>1,035,262</u>	<u>969</u>
EXPENDITURES					
Current:					
0035	Food service	<u>899,293</u>	<u>1,034,293</u>	<u>1,032,053</u>	<u>2,240</u>
6030	Total expenditures	<u>899,293</u>	<u>1,034,293</u>	<u>1,032,053</u>	<u>2,240</u>
1200	NET CHANGE IN FUND BALANCES	-	-	3,209	3,209
0100	FUND BALANCES, BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,209</u>	<u>\$ 3,209</u>

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2016

		Budgeted Amounts		Actual	Variance with
		Original	Final	Amounts	Final Budget
				Positive	
				(Negative)	
REVENUES					
5700	Local and intermediate sources	\$ 2,775,962	\$ 2,775,962	\$ 3,124,852	\$ 348,890
5800	State programs	<u>700,617</u>	<u>700,617</u>	<u>1,093,284</u>	<u>392,667</u>
5020	Total revenues	<u>3,476,579</u>	<u>3,476,579</u>	<u>4,218,136</u>	<u>741,557</u>
EXPENDITURES					
Debt service:					
0071	Principal on long-term debt	1,685,000	1,685,000	1,685,000	-
0072	Interest on long-term debt	1,787,479	1,787,479	1,787,479	-
0073	Bond issuance costs and fees	<u>4,100</u>	<u>164,100</u>	<u>161,447</u>	<u>2,653</u>
6030	Total expenditures	<u>3,476,579</u>	<u>3,636,579</u>	<u>3,633,926</u>	<u>2,653</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>(160,000)</u>	<u>584,210</u>	<u>744,210</u>
OTHER FINANCING SOURCES (USES)					
7901	Refunding bonds issued	-	8,545,000	8,545,000	-
7916	Premium on issuance of bonds	-	1,309,100	1,309,021	(79)
8940	Payment to bond refunding escrow agent	<u>-</u>	<u>(9,695,000)</u>	<u>(9,694,520)</u>	<u>480</u>
7080	Total other financing sources (uses)	<u>-</u>	<u>159,100</u>	<u>159,501</u>	<u>401</u>
1200	NET CHANGE IN FUND BALANCES	<u>-</u>	<u>(900)</u>	<u>743,711</u>	<u>744,611</u>
0100	FUND BALANCES, BEGINNING	<u>3,882,464</u>	<u>3,882,464</u>	<u>3,882,464</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ 3,882,464</u>	<u>\$ 3,881,564</u>	<u>\$ 4,626,175</u>	<u>\$ 744,611</u>

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FEDERAL AWARDS SECTION

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

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

To the Board of Trustees of
China Spring Independent School District
China Spring, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of China Spring Independent School District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise China Spring Independent School District's basic financial statements, and have issued our report thereon dated November 9, 2016.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
November 9, 2016



PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

To the Board of Trustees of
China Spring Independent School District
China Spring, Texas

Report on Compliance for Each Major Federal Program

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

Management's Responsibility

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

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

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

Report on Internal Control over Compliance

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

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

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

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

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
November 9, 2016

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

(1) Federal Grantor/ Pass-through Grantor/ Grantor/Program Title	(2) Federal CFDA Number	(2A) Pass-through Entity Identifying Number	(3) Federal Expenditures
U. S. DEPARTMENT OF AGRICULTURE			
<u>Passed through the Texas Education Agency</u>			
School Breakfast Program	10.553	714015	\$ 12,800
School Breakfast Program	10.553	714016	73,913
National School Lunch Program	10.555	713015	45,291
National School Lunch Program	10.555	713016	<u>253,926</u>
Total Passed through the Texas Education Agency			<u>385,930</u>
<u>Passed through the Texas Department of Agriculture</u>			
National School Lunch Program			
Commodities - Noncash Assistance	10.555	161007A	<u>61,107</u>
Total Passed through the Texas Department of Agriculture			<u>61,107</u>
Total Child Nutrition Cluster			<u>447,037</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE			<u>447,037</u>
U. S. DEPARTMENT OF EDUCATION			
<u>Passed through the Texas Education Agency</u>			
Title I, Part A - Improving Basic Programs	84.010	15610101161920	<u>241,153</u>
Total Title I, Part A Cluster			<u>241,153</u>
IDEA B Formula	84.027	156600011619206600	524,772
IDEA B Preschool	84.173	156610011619206610	4,347
Total IDEA B Cluster			<u>529,119</u>
Carl D. Perkins Basic Formula	84.048A	154200006161920	18,266
Title II, Part A - Teacher and Principal Training	84.367A	15694501161920	<u>30,423</u>
Total Title II, Part A Cluster			<u>30,423</u>
Total Passed through the Texas Education Agency			<u>818,961</u>
TOTAL U. S. DEPARTMENT OF EDUCATION			<u>818,961</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,265,998</u>

**CHINA SPRING INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2016**

1. GENERAL

The Schedule of Expenditures of Federal Awards presents the activity of all applicable federal award programs of China Spring Independent School District. The District’s reporting entity is defined in Note I of the basic financial statements. Federal awards received directly from federal agencies, as well as federal awards passed through other government agencies, are included on the Schedule of Expenditures of Federal Awards.

2. BASIS OF ACCOUNTING

The Schedule of Expenditures of Federal Awards is presented using the modified accrual basis of accounting. Awards is presented using the modified accrual basis of accounting. The District’s significant account policies, including the modified accrual basis of accounting, are presented in Note 1 of the basic financial statements. The information in the schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some of the amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

3. PASS-THROUGH EXPENDITURES

None of the federal programs expended by the District were provided to subrecipients.

4. INDIRECT COSTS

The District did not elect to apply the 10% de minimis indirect cost rate.

5. RECONCILIATION OF FEDERAL REVENUES AND SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal revenues per the Statement of Revenues,	
Expenditures and Changes in Fund Balance -	
Governmental Funds (Exhibit C-3)	\$ 1,474,351
School health and related services revenue	<u>(208,353)</u>
Federal expenditures per the Schedule of	
Expenditures of Federal Awards	
(Exhibit K-1)	<u>\$ 1,265,998</u>

**CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Summary of Auditors' Results

Financial Statements

Type of report on financial statements	Unmodified
Internal control over financial reporting: Material weakness(es) identified?	No
Significant deficiency(ies) identified, that were not considered a material weakness?	None reported
Material noncompliance to the financial statements noted?	No

Federal Awards

Internal control over major programs: Material weakness(es) identified?	No
Significant deficiency(ies) identified, that were not considered a material weakness?	None reported
Type of auditors' report on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs: CFDA Numbers: 84.027 and 84.173	Name of Federal Program or Cluster: IDEA-B Cluster
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

**Findings Relating to the Financial Statements Which are
Required to be Reported in Accordance With Generally
Accepted Government Auditing Standards**

None

Findings and Questioned Costs for Federal Awards

None

**CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

None.