



China Spring ISD

**ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2015**

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2015

TABLE OF CONTENTS

<u>Exhibit</u>		<u>Page</u>
	Certificate of Board	1
	Independent Auditors' Report	2
	Management's Discussion and Analysis	5
	<u>Basic Financial Statements</u>	
	Government-wide Statements:	
A-1	Statement of Net Position	12
B-1	Statement of Activities	13
	Governmental Fund Financial Statements:	
C-1	Balance Sheet	14
C-2	Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	15
C-3	Statement of Revenues, Expenditures, and Changes in Fund Balances	16
C-4	Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	17
	Fiduciary Fund Financial Statements:	
E-1	Statement of Fiduciary Net Position	18
	Notes to the Financial Statements	19
	<u>Required Supplementary Information</u>	
G-1	Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – General Fund	42
G-2	Schedule of the District's Proportionate Share of the Net Pension Liability	43
G-3	Schedule of District Contributions Teacher Retirement System	44
	Notes to Required Supplementary Information	45
	<u>Combining Schedules</u>	
	Nonmajor Governmental Funds:	
H-1	Combining Balance Sheet	46
H-2	Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	48
	<u>Required TEA Schedules</u>	
J-1	Schedule of Delinquent Taxes Receivable	50
J-4	Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – National School Breakfast and Lunch Program	52
J-5	Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – Debt Service Fund	53
	<u>Federal Awards Section</u>	
	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 <i>Government Auditing Standards</i>	54
	Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133	56
K-1	Schedule of Expenditures of Federal Awards	58
	Notes to Schedule of Expenditures of Federal Awards	59
	Schedule of Findings and Questioned Costs	60
	Summary Schedule of Prior Audit Findings	61

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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, 2015, at a meeting of the Board of Trustees of such school district on the 16th day of November 2015.

Jeff Garrett
Signature of Board Secretary

John Palmer
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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PATILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of China Spring Independent School District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the China Spring Independent School District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the China Spring Independent School District as of June 30, 2015, and the respective changes in financial position, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note I to the financial statements, in 2015 the District adopted new accounting guidance, Governmental Account Standards (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27* and Governmental Account Standards (GASB) Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison and pension information on pages 5 – 11 and 42 – 45 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the China Spring Independent School District's basic financial statements. The combining nonmajor fund financial statements and required TEA schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the basic financial statements.

The combining nonmajor fund financial statements, required TEA schedules and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial 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 November 3, 2015, on our consideration of the 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 3, 2015

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

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, 2015. 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 \$20,492,582 (*net position*). Of this amount, \$5,593,239 (*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 \$1,410,778.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$11,022,858, a decrease of \$5,833,363 in comparison with the prior year. This change was due to the completion of the 2013 Bond Construction Project which decreased the ending fund balance in the Capital Projects Fund.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$7,023,265, or 38% of total General Fund expenditures, an increase of \$1,242,768, or 21%, 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 decreased from \$20,781,028 to \$20,492,582. 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 \$5,593,239 at June 30, 2015.

The net assets of governmental activities decreased by 1.4%, \$20,781,028 in 2014 to \$20,492,582 in 2015. The District’s increase in net position of \$1,410,778 for the year 2015 resulted primarily from the following:

- Federal revenue increased by approximately \$317 thousand as compared to the prior year, primarily a result of a large SHARS payment received by the District in 2015.
- State aid increased by approximately \$737 thousand in fiscal year 2015. This increase was the result of an increase in number of students.
- The assessed valuation of taxable property of the District increased during 2015 which resulted in an increase in property tax revenue of approximately \$332 thousand.

TABLE 1**CHINA SPRING INDEPENDENT SCHOOL DISTRICT****NET POSITION**

	Governmental Activities	
	2015	2014
Current and other assets	\$ 13,706,444	\$ 20,903,199
Capital assets	<u>56,974,703</u>	<u>50,899,147</u>
Total assets	70,681,147	71,802,346
Total deferred outflows of resources	<u>1,415,419</u>	<u>256,096</u>
Long-term liabilities	48,434,220	46,809,111
Other liabilities	<u>2,717,036</u>	<u>4,468,303</u>
Total liabilities	<u>51,151,256</u>	<u>51,277,414</u>
Total deferred inflows of resources	<u>452,728</u>	<u>-</u>
Net position:		
Net investment in capital assets	11,518,835	11,853,665
Restricted	3,380,508	2,909,508
Unrestricted	<u>5,593,239</u>	<u>6,017,855</u>
Total net position	<u>\$ 20,492,582</u>	<u>\$ 20,781,028</u>

TABLE 2
CHINA SPRING INDEPENDENT SCHOOL DISTRICT
CHANGES IN NET POSITION

	Governmental Activities	
	2015	2014
REVENUES		
Program revenues:		
Charges for services	\$ 631,380	\$ 521,944
Operating grants and contributions	3,409,351	2,757,464
General revenues:		
Maintenance and operations taxes	6,697,813	6,531,256
Debt service taxes	3,211,043	3,045,706
Grants and contributions not restricted	10,346,704	9,740,471
Investment earnings	58,418	23,804
Miscellaneous	72,752	70,912
Special item	-	437,507
Total revenues	<u>24,427,461</u>	<u>23,129,064</u>
EXPENSES		
Instruction	11,901,894	11,150,726
Instructional resources and media services	185,943	158,123
Curriculum and staff development	63,753	63,320
Instructional leadership	224,140	229,551
School leadership	1,285,391	1,263,966
Guidance, counseling and evaluation services	647,738	615,628
Health services	198,169	163,034
Student (pupil) transportation	917,245	925,314
Food services	1,012,014	898,845
Co-curricular/extracurricular activities	859,217	819,692
General administration	1,201,893	727,865
Plant maintenance and operations	2,208,100	2,075,030
Security and monitoring services	58,389	56,178
Data processing services	37,970	-
Debt service - interest on long-term debt	1,878,800	1,883,601
Debt service - bond issuance cost and fees	190,817	238,539
Other governmental charges	145,210	126,799
Total expenses	<u>23,016,683</u>	<u>21,396,211</u>
INCREASE IN NET POSITION	1,410,778	1,732,853
NET POSITION, BEGINNING	20,781,028	19,498,676
PRIOR PERIOD ADJUSTMENT	(1,699,224)	(450,501)
NET POSITION, ENDING	<u>\$ 20,492,582</u>	<u>\$ 20,781,028</u>

The cost of all governmental activities this year was \$23,016,683. However, the amount that the taxpayers ultimately financed for these activities through District taxes was \$8,629,248 because some of the cost was paid by those who directly benefited from the programs (\$631,380), by other governments and organizations that subsidized certain programs with operating grants and contributions (\$3,409,351), or by other grants and contributions not restricted (\$10,346,704).

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 \$11,022,858, which is less than last year's total of \$16,856,221. Total government revenue increased in fiscal year 2015 by \$1.5 million compared to fiscal year 2014 as a result of several items. Property tax revenue increased by approximately \$332,000 primarily due to increased taxable property values. State funding increased as compared to the prior year by approximately \$737 thousand, which was a result of a slight increase in students and student attendance. Federal revenues increased by \$317 thousand from 2014 to 2015, due to a large SHARS payment received.

Total governmental expenditures increased by \$2.5 million in fiscal year 2015 as compared to fiscal year 2014. Of this increase, approximately \$728,000 was due to increases in debt service payments made.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, total General fund balance was \$7,023,265, 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 38.12% of total General fund expenditures.

The fund balance of the District's General Fund increased \$1,242,768 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 \$3,882,464, 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 \$325,259.

The majority of the decrease in overall fund balance is due to the completion of a Capital Project related to the Bond Issue in August, 2013. The District spent \$7,434,416 for various capital projects. This resulted in a decrease of \$7,401,622 in the Capital Projects Fund balance.

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 \$7,023,265 reported on pages 16 and 42 differs from the General Fund's final budgetary fund balance of \$5,723,487. 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 2015, the District had approximately \$57.0 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 \$47.0 million in long-term liabilities outstanding as of June 30, 2015. During the current year, the District made annual debt service payments to reduce bonds in the amount of approximately \$1,799,000 and issued Series 2015 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 2016 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 2016. 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, 2015

Data Control Codes		1 <u>Primary Government</u> Governmental <u>Activities</u>
ASSETS		
1110	Cash and cash equivalents	\$ 9,765,062
1220	Delinquent property taxes receivables	449,122
1230	Allowance for uncollectible taxes	(157,193)
1240	Due from other governments	3,254,820
1290	Other receivables	394,633
	Capital assets:	
1510	Land	752,591
1520	Buildings and improvements, net	54,175,697
1530	Furniture and equipment, net	1,733,999
1580	Construction in progress	312,416
1000	Total assets	<u>70,681,147</u>
DEFERRED OUTFLOWS OF RESOURCES		
1701	Deferred loss on bond refunding	1,034,476
1705	Deferred outflow related to TRS	380,943
1700	Total deferred outflows of resources	<u>1,415,419</u>
LIABILITIES		
2110	Accounts payable	457,456
2140	Interest payable	596,782
2150	Payroll deductions and withholdings	5,268
2160	Accrued wages	1,521,702
2200	Accrued expenses	133,164
2300	Unearned revenue	2,664
	Noncurrent liabilities:	
2501	Due within one year	1,984,815
2502	Due in more than one year	46,449,405
2000	Total liabilities	<u>51,151,256</u>
DEFERRED INFLOWS OF RESOURCES		
2605	Deferred inflow related to TRS	452,728
2600	Total deferred inflows of resources	<u>452,728</u>
NET POSITION		
3200	Net investment in capital assets	11,518,835
	Restricted for:	
3850	Debt service	3,380,508
3900	Unrestricted	5,593,239
3000	Total net position	<u>\$ 20,492,582</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, 2015

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues		Net (Expenses) Revenue and Changes in Net Position
			3 Charges for Services	4 Operating Grants and Contributions	6 Governmental Activities
Primary government:					
Governmental activities:					
11	Instruction	\$ 11,901,894	\$ -	\$ 1,887,039	\$(10,014,855)
12	Instructional resources and media services	185,943	-	9,104	(176,839)
13	Curriculum and staff development	63,753	-	26,676	(37,077)
21	Instructional leadership	224,140	-	34,486	(189,654)
23	School leadership	1,285,391	-	76,015	(1,209,376)
31	Guidance, counseling, and evaluation services	647,738	-	131,155	(516,583)
33	Health services	198,169	-	10,065	(188,104)
34	Student transportation	917,245	-	25,770	(891,475)
35	Food service	1,012,014	537,146	424,357	(50,511)
36	Extracurricular activities	859,217	94,234	25,447	(739,536)
41	General administration	1,201,893	-	31,319	(1,170,574)
51	Facilities maintenance and operations	2,208,100	-	42,282	(2,165,818)
52	Security and monitoring services	58,389	-	3,334	(55,055)
53	Data processing services	37,970	-	-	(37,970)
72	Interest on long-term debt	1,878,800	-	682,302	(1,196,498)
73	Bond issuance costs and fees	190,817	-	-	(190,817)
99	Other governmental changes	145,210	-	-	(145,210)
TG	Total governmental activities	<u>\$ 23,016,683</u>	<u>\$ 631,380</u>	<u>\$ 3,409,351</u>	<u>(18,975,952)</u>

Data Control Codes	General revenues:	
Taxes:		
MT	Property taxes, levied for general purposes	6,697,813
DT	Property taxes, levied for debt service	3,211,043
GC	Grants and contributions not restricted	10,346,704
IE	Investment earnings	58,418
MI	Miscellaneous	<u>72,752</u>
TR	Total general revenues	<u>20,386,730</u>
CN	Change in net position	1,410,778
NB	Net position--beginning	20,781,028
PA	Prior period adjustment	<u>(1,699,224)</u>
NE	Net position--ending	<u>\$ 20,492,582</u>

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, 2015

Data Control Codes	10	50	60	98	Total	
	General	Debt Service	Capital Projects	Other Governmental	Governmental Funds	
ASSETS						
1110	Cash and cash equivalents	\$ 5,716,995	\$ 3,843,307	\$ 168,591	\$ 36,169	\$ 9,765,062
1220	Delinquent property taxes receivable	332,126	116,996	-	-	449,122
1230	Allowance for uncollectible taxes	(116,244)	(40,949)	-	-	(157,193)
1240	Due from other governments	3,155,910	10,224	-	88,686	3,254,820
1260	Due from other funds	10,366	-	-	-	10,366
1290	Other receivables	314,993	47,712	-	31,928	394,633
1000	Total assets	<u>9,414,146</u>	<u>3,977,290</u>	<u>168,591</u>	<u>156,783</u>	<u>13,716,810</u>
LIABILITIES						
2110	Accounts payable	384,753	-	62,680	10,023	457,456
2150	Payroll deductions and withholdings	5,268	-	-	-	5,268
2160	Accrued wages	1,413,734	-	-	107,968	1,521,702
2170	Due to other funds	-	-	-	10,366	10,366
2200	Accrued expenditures	115,956	-	-	17,208	133,164
2300	Unearned revenue	2,664	-	-	-	2,664
2000	Total liabilities	<u>1,922,375</u>	<u>-</u>	<u>62,680</u>	<u>145,565</u>	<u>2,130,620</u>
DEFERRED INFLOWS OF RESOURCES						
2610	Unavailable revenue	468,506	94,826	-	-	563,332
2600	Total deferred inflows of resources	<u>468,506</u>	<u>94,826</u>	<u>-</u>	<u>-</u>	<u>563,332</u>
FUND BALANCES						
Restricted:						
3470	Capital projects	-	-	105,911	-	105,911
3480	Debt service	-	3,882,464	-	-	3,882,464
3545	Committed - other	-	-	-	11,218	11,218
3600	Unassigned	7,023,265	-	-	-	7,023,265
3000	Total fund balances	<u>7,023,265</u>	<u>3,882,464</u>	<u>105,911</u>	<u>11,218</u>	<u>11,022,858</u>
4000	Total liabilities, deferred inflows of resources and fund balances	<u>\$ 9,414,146</u>	<u>\$ 3,977,290</u>	<u>\$ 168,591</u>	<u>\$ 156,783</u>	<u>\$ 13,716,810</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, 2015

Total fund balances - governmental funds	\$ 11,022,858
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	57,332,697
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.	347,581
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.	215,751
Long-term liabilities, including 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.	(46,277,767)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(596,782)
Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability in the amount of \$1,551,756, a deferred resource inflow related to TRS in the amount of \$452,728, and a deferred resource outflow related to TRS in the amount of \$380,943.	(<u>1,551,756</u>)
Net position of governmental activities	\$ <u>20,492,582</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, 2015

Data Control Codes	10 General	50 Debt Service	60 Capital Projects	Other Governmental	98 Total Governmental Funds
REVENUES					
5700 Local and intermediate sources	\$ 6,878,785	\$ 3,205,280	\$ 36,287	\$ 538,012	\$ 10,658,364
5800 State programs	11,107,545	682,302	-	281,474	12,071,321
5900 Federal programs	352,644	-	-	1,089,222	1,441,866
5020 Total revenues	<u>18,338,974</u>	<u>3,887,582</u>	<u>36,287</u>	<u>1,908,708</u>	<u>24,171,551</u>
EXPENDITURES					
Current:					
0011 Instruction	10,090,111	-	-	867,468	10,957,579
0012 Instructional resources and media services	162,290	-	-	-	162,290
0013 Curriculum and staff development	34,774	-	-	26,676	61,450
0021 Instructional leadership	223,949	-	-	-	223,949
0023 School leadership	1,239,779	-	-	-	1,239,779
0031 Guidance, counseling, and evaluation services	578,494	-	-	52,195	630,689
0033 Health services	186,001	-	-	-	186,001
0034 Student transportation	1,105,846	-	-	-	1,105,846
0035 Food service	-	-	-	967,689	967,689
0036 Extracurricular activities	774,327	-	-	-	774,327
0041 General administration	741,521	-	-	-	741,521
0051 Facilities maintenance and operations	2,128,739	-	3,673	-	2,132,412
0052 Security and monitoring services	57,780	-	-	-	57,780
0053 Data processing services	37,970	-	-	-	37,970
Debt service:					
0071 Principal on long-term debt	264,000	1,535,000	-	-	1,799,000
0072 Interest on long-term debt	10,197	2,024,223	-	-	2,034,420
0073 Bond issuance costs and fees	22,250	168,567	-	-	190,817
0081 Capital outlay	619,356	-	7,434,236	-	8,053,592
0099 Other intergovernmental charges	145,210	-	-	-	145,210
6030 Total expenditures	<u>18,422,594</u>	<u>3,727,790</u>	<u>7,437,909</u>	<u>1,914,028</u>	<u>31,502,321</u>
1100 EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(83,620)</u>	<u>159,792</u>	<u>(7,401,622)</u>	<u>(5,320)</u>	<u>(7,330,770)</u>
OTHER FINANCING SOURCES (USES)					
7901 Refunding bonds issued	-	7,910,000	-	-	7,910,000
7913 Proceeds from capital leases	306,940	-	-	-	306,940
7914 Tax note proceeds	1,025,000	-	-	-	1,025,000
7915 Transfers in	-	-	-	5,552	5,552
7916 Premium on issuance of bonds	-	1,104,916	-	-	1,104,916
8911 Transfers out	(5,552)	-	-	-	(5,552)
8940 Payment to bond refunding escrow agent	-	(8,849,449)	-	-	(8,849,449)
7080 Total other financing sources (uses)	<u>1,326,388</u>	<u>165,467</u>	<u>-</u>	<u>5,552</u>	<u>1,497,407</u>
1200 NET CHANGE IN FUND BALANCES	1,242,768	325,259	(7,401,622)	232	(5,833,363)
0100 FUND BALANCES, BEGINNING	<u>5,780,497</u>	<u>3,557,205</u>	<u>7,507,533</u>	<u>10,986</u>	<u>16,856,221</u>
3000 FUND BALANCES, ENDING	<u>\$ 7,023,265</u>	<u>\$ 3,882,464</u>	<u>\$ 105,911</u>	<u>\$ 11,218</u>	<u>\$ 11,022,858</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, 2015

Net change in fund balances - total governmental funds \$(5,833,363)

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. 6,856,008

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. (422,458)

Property tax revenues that do not provide current financial resources are not reported as revenues in the funds. 40,159

SHARS settlement revenues that do not provide current financial resources are not reported as revenues in the funds. 215,751

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. 251,593

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. 155,620

Certain pension 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, 2014, caused the change in the ending net position to increase in the amount of \$261,855. Contributions made before the measurement but during the fiscal year 2015 were also expended and recorded as a reduction in the net pension liability for the district. This also caused an increase in the change in net position in the amount of \$22,410. The District's share of the unrecognized deferred inflows and outflows for TRS as of the measurement date had to be amortized causing an increase in the change in net position in the amount of \$136,797. 147,468

Change in net position of governmental activities \$ 1,410,778

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

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2015

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>238,658</u>
Total assets	\$ <u>238,658</u>
LIABILITIES	
Due to student groups	\$ <u>238,658</u>
Total liabilities	\$ <u>238,658</u>

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

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2015

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.

The ***Capital Projects Fund*** accounts for activity related to the use of the 2013 Bond proceeds which include the construction of major additions to the high school and elementary school.

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.

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, 2015.

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 estimated fair market value at the date of donation.

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

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

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

4. *Compensated Absences*

It is the District’s policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated vacation or sick leave since the District does not have a policy to pay any amounts when employees separate from service with the District.

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, 2015, will change.

16. Prior Period Adjustment – Change in Accounting Principles

During fiscal year 2015, the District adopted GASB Statement No. 68 for Accounting and Reporting for Pensions. With GASB 68, the District must assume their proportionate share of the Net Pension Liability of the Teacher Retirement System of Texas. Adoption of GASB 68 required a prior period adjustment to report the effect of GASB 68 retroactively. The amount of the prior period adjustment is \$1,699,224. The restated beginning net position is \$19,081,804.

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, 2015, the District had the following investments:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
Tex Pool	\$ 386,823	43
LOGIC	36,581	50
Texas Term Texas Daily	1,987,827	64

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, 2015, 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.

Tex Pool	AAAm
LOGIC	AAAm
Texas Term	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.

The District’s investments in Pools are reported at an amount determined by the fair value per share of the Pool’s underlying portfolio, unless the Pool is 2a7-like, in which case, they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission (“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.

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, 2015, are summarized below.

	<u>Grants</u>	<u>State Entitlements</u>	<u>Other</u>
General fund	\$ -	\$ 3,146,667	\$ 9,243
Debt service fund	-	10,224	-
Nonmajor governmental funds	<u>88,686</u>	<u>-</u>	<u>-</u>
	<u>\$ 88,686</u>	<u>\$ 3,156,891</u>	<u>\$ 9,243</u>

C. Interfund Balances and Transfers

The composition of interfund balances as of June 30, 2015, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental	\$ <u>10,366</u>

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

The transfer in the amount of \$5,552 from the General Fund to a nonmajor fund, was to fund the National School Breakfast and Lunch Program.

D. Other Receivables

Other receivables consisted of the following balances as of June 30, 2015:

	<u>General</u>	<u>Debt Service</u>	<u>Other</u>	<u>Total</u>
Property tax penalties and interest	\$ 152,680	\$ 73,403	\$ -	\$ 226,083
Food service - Sodexo	-	-	31,928	31,928
Allowance for uncollectibles	<u>(53,438)</u>	<u>(25,691)</u>	<u>-</u>	<u>(79,129)</u>
Total, net	<u>\$ 99,242</u>	<u>\$ 47,712</u>	<u>\$ 31,928</u>	<u>\$ 178,882</u>

E. Capital Assets

Capital asset activity for the year ended June 30, 2015, was as follows:

	<u>Beginning Balance 06/30/14</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance 06/30/15</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 752,591	\$ -	\$ -	\$ 752,591
Construction in progress	<u>8,160,899</u>	<u>8,115,293</u>	<u>(15,963,776)</u>	<u>312,416</u>
Total capital assets, not being depreciated	<u>8,913,490</u>	<u>8,115,293</u>	<u>(15,963,776)</u>	<u>1,065,007</u>
Capital assets, being depreciated:				
Buildings and improvements	54,010,317	15,101,065	(582,700)	68,528,682
Machinery and equipment	<u>2,485,288</u>	<u>820,493</u>	<u>-</u>	<u>3,305,781</u>
Total capital assets, being depreciated	<u>56,495,605</u>	<u>15,921,558</u>	<u>(582,700)</u>	<u>71,834,463</u>
Less accumulated depreciation for:				
Buildings and improvements	(13,273,069)	(1,240,158)	160,242	(14,352,985)
Machinery and equipment	<u>(1,236,879)</u>	<u>(334,903)</u>	<u>-</u>	<u>(1,571,782)</u>
Total accumulated depreciation	<u>(14,509,948)</u>	<u>(1,575,061)</u>	<u>160,242</u>	<u>(15,924,767)</u>
Total capital assets, being depreciated, net	<u>41,985,657</u>	<u>14,346,497</u>	<u>(422,458)</u>	<u>55,909,696</u>
Total capital assets, net	<u>\$ 50,899,147</u>	<u>\$ 22,461,790</u>	<u>\$(16,386,234)</u>	<u>\$ 56,974,703</u>

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

Governmental activities:

Instruction	\$ 835,323
Instructional resources media services	24,885
Curriculum and staff development	2,501
Instructional leadership	2,501
School leadership	58,465
Guidance counseling and evaluation services	24,885
Health services	13,693
Student pupil transportation	270,344
Food services	48,485
Co-curricular/extracurricular	107,594
General administration	44,474
Plant maintenance and operations	140,961
Security and monitoring services	<u>950</u>
 Total depreciation expense - governmental activities	 <u>\$ 1,575,061</u>

F. Deferred Outflows and Inflows of Resources

At June 30, 2015, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Total net amounts per August 31, 2014, measurement date	\$ 119,088	\$ 452,728
Contributions paid to TRS subsequent to the measurement date	<u>261,855</u>	<u>-</u>
Totals	<u>\$ 380,943</u>	<u>\$ 452,728</u>

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

	<u>General Fund</u>	<u>Debt Service Fund</u>
Unavailable - property taxes	\$ 252,755	\$ 94,826
Unavailable - SHARS	<u>215,751</u>	<u>-</u>
Totals	<u>\$ 468,506</u>	<u>\$ 94,826</u>

G. Long-term Debt

Governmental long-term liability activity for the year ended June 30, 2015, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
Bonds payable	\$ 45,770,000	\$ 7,910,000	\$ 9,535,000	\$ 44,145,000	\$ 1,685,000
Premium/discount on bonds	417,117	1,104,916	94,724	1,427,309	94,724
Tax notes	264,000	1,025,000	264,000	1,025,000	138,000
Capital leases	-	306,940	-	306,940	67,091
Retainage payable	357,944	50,000	357,944	50,000	-
Net pension liability	1,699,224	-	219,253	1,479,971	-
Total	<u>\$ 48,508,285</u>	<u>\$ 10,396,856</u>	<u>\$ 10,470,921</u>	<u>\$ 48,434,220</u>	<u>\$ 1,984,815</u>

Retainage payable is generally paid from the capital projects fund and the net pension liability is 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	\$ 331,765	\$ 8,095,000	\$ 335,000
Unlimited Tax School					
Building Bonds Series 2007	4.0% to 5.0%	21,999,939	917,220	11,190,000	500,000
Unlimited Tax					
Refunding Bonds Series 2011	1.0% to 3.0%	3,605,000	6,810	1,880,000	615,000
Unlimited Tax School					
Building Bonds Series 2013	2.0% to 5.0%	15,210,000	707,138	15,070,000	125,000
Unlimited Tax					
Refunding Bonds Series 2015	2.0% to 4.0%	7,910,000	-	7,910,000	110,000
Limited Maintenance					
Tax Notes:					
Series 2009	3.0% to 5.4%	400,000	8,311	-	-
Series 2014	2.0% to 4.0%	460,000	1,885	460,000	88,000
Series 2015	2.0%	565,000	-	565,000	50,000
Capital Lease:					
Dell - Wireless Project	4.6%	306,940	-	306,940	67,091
Totals			<u>\$ 1,973,129</u>	<u>\$ 45,476,940</u>	<u>\$ 1,890,091</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
2016	\$ 1,685,000	\$ 1,787,479	\$ 3,472,479
2017	1,610,000	1,820,820	3,430,820
2018	1,330,000	1,763,648	3,093,648
2019	1,720,000	1,707,340	3,427,340
2020	1,445,000	1,641,583	3,086,583
2021-2025	9,585,000	7,125,005	16,710,005
2026-2030	9,325,000	5,111,643	14,436,643
2031-2035	6,930,000	3,371,400	10,301,400
2036-2040	5,420,000	2,053,000	7,473,000
2041-2044	5,395,000	556,125	5,951,125
Total	<u>\$ 44,445,000</u>	<u>\$ 26,938,043</u>	<u>\$ 71,383,043</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, 2015.

Tax note debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2016	\$ 138,000	\$ 13,826	\$ 151,826
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
2021-2025	300,000	20,424	320,424
Total	<u>\$ 1,025,000</u>	<u>\$ 83,100</u>	<u>\$ 1,108,100</u>

Refunding of Debt

As of June 30, 2015, 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 \$8,000,000.

The District issued \$7,910,000 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 \$8,000,000 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 \$849,449. 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 \$1,358,553 and resulted in an economic gain of \$1,633,444.

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	(15,347)
Net value	<u>\$ 291,593</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2015, were as follows:

Year Ending June 30,	Governmental Activities
2016	\$ 67,091
2017	67,091
2018	67,091
2019	67,091
2020	<u>67,091</u>
Total minimum lease payments	335,455
Less: amount representing interest	<u>(28,515)</u>
Present value of minimum lease payments	<u>\$ 306,940</u>

H. Fund Balance

As of June 30, 2015, governmental fund balance is composed of the following:

Fund Balance Classification	General	Debt Service	Capital Projects	Other Governmental	Totals
Restricted:					
Capital projects	\$ -	\$ -	\$ 105,911	\$ -	\$ 105,911
Retirement of long-term debt	-	3,882,464	-	-	3,882,464
Committed - campus activities	-	-	-	11,218	11,218
Unassigned	<u>7,023,265</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,023,265</u>
Total governmental fund balance	<u>\$ 7,023,265</u>	<u>\$ 3,882,464</u>	<u>\$ 105,911</u>	<u>\$ 11,218</u>	<u>\$ 11,022,858</u>

I. Defined Benefit Pension Plan

Plan Description. The China Spring Independent School Districts 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. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2015 as discussed in Note 1 of the TRS 2014 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2014 and 2015.

	Contribution Rates	
	2014	2015
Member	6.4%	6.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
2014 Employer Contributions		\$ 140,470
2014 Member Contributions		829,138
2014 NECE On-behalf Contributions		661,152

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, 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.

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

Valuation Date	8/31/2014
Actuarial Cost Method	Individual Entry Age Normal
Amortization Method	Level Percentage of Payroll, Open
Remaining Amortization Period	30 years
Asset Valuation Method	5 years Market Value
Discount Rate	8.00%
Long-term expected Investment Rate of Return*	8.00%
Salary Increases*	4.25% to 7.25%
Weighted-Average at Valuation Date	5.55%
Payroll Growth Rate	3.50%

*Includes Inflation of 3%

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

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, 2014 are summarized below:

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
Global Equity			
U.S.	18%	7.0%	1.4%
Non-U.S. Developed	13%	7.3%	1.1%
Emerging Markets	9%	8.1%	0.9%
Directional Hedge Funds	4%	5.4%	0.2%
Private Equity	13%	9.2%	1.4%
Stable Value			
U.S. Treasuries	11%	2.9%	0.3%
Absolute Return	0%	4.0%	0.0%
Stable Value Hedge Funds	4%	5.2%	0.2%
Cash	1%	2.0%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	3.1%	0.0%
Real Assets	16%	7.3%	1.5%
Energy and Natural Resources	3%	8.8%	0.3%
Commodities	0%	3.4%	0.0%
Risk Parity			
Risk Parity	5%	8.9%	0.4%
Alpha			1%
Total	100%		9%

* *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 2014 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:	\$ 2,644,618	\$ 1,479,971	\$ 609,032

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2014, the District's liability was \$1,479,971 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 1,479,971
State's proportionate share that is associated with the District	<u>6,980,672</u>
Total	<u>\$ 8,460,643</u>

The net pension liability was measured as of August 31, 2014 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, 2013 thru August 31, 2014.

At August 31, 2014 the employer's proportion of the collective net pension liability was 0.0055406%. Since this is the first year of implementation, the District does not have the proportion measured as of August 31, 2013. The change in proportion was immaterial and therefore disregarded this year.

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

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

There was a change in employer contribution requirements that occurred after the measurement date of the net pension liability and the employer's reporting date. A 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees went into law effective September 1, 2013. The amount of the expected resultant change in the employer's proportion cannot be determined at this time.

For the year ended August 31, 2014, measurement period, the District's pension expense was \$645,350 and revenue of \$645,350 for support provided by the State.

At August 31, 2014, measurement date, 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
	<u> </u>	<u> </u>
Differences between expected and actual economic experience	\$ 22,888	\$ -
Changes in actuarial assumptions	96,200	-
Difference between projected and actual investment earnings	-	452,340
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	-	388
	<u> </u>	<u> </u>
Total	<u>\$ 119,088</u>	<u>\$ 452,728</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 August 31,	Pension Expense Amount
<u> </u>	<u> </u>
2015	\$(93,060)
2016	(93,060)
2017	(93,060)
2018	(93,060)
2019	20,025
Thereafter	18,575

J. Health Care Coverage

During the period ended June 30, 2015, 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 2013-2015.

Year	Contribution Rates and Amounts					
	Active Member		State		School District	
	Rate	Amount	Rate	Amount	Rate	Amount
2013	0.65%	\$ 72,487	0.50%	\$ 56,162	0.55%	\$ 60,335
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

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 \$31,305, \$41,787, and \$31,171 were recognized for the years ended June 30, 2015, 2014, and 2013, 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.

In prior years, the District was a member of the Education Co-op of Central Texas, a shared service arrangement. During fiscal year 2011, the member districts of the Education Co-op of Central Texas voted to dissolve the shared service arrangement. The fiscal agent of the Co-op is responsible for liquidating the assets of the cooperative and distributing the proceeds to the member districts. The remaining asset is a building that has been held-for-sale since the dissolution. The District will continue to incur a pro-rata share of electricity and insurance payments for this building until it is sold.

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 2015, 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, 2015, 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, 2015, 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, 2014, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

N. Subsequent Event

The District sold property to the State of Texas. The property consists of 0.378 acres (16,447 square feet) located at 6301 Sylvia Avenue, Waco, Texas 76708. The payment of the amount of \$1,123,538 will constitute full payment to be made by the Texas Department of Transportation for the property to be conveyed to the State. Although executed prior to August 31, 2016, the conveyance will be effective August 31, 2016. This agreement was finalized on August 6, 2015.

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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, 2015

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 6,732,786	\$ 6,754,411	\$ 6,878,785	\$ 124,374
5800	State programs	10,633,861	10,673,861	11,107,545	433,684
5900	Federal program	<u>90,657</u>	<u>131,857</u>	<u>352,644</u>	<u>220,787</u>
5020	Total revenues	<u>17,457,304</u>	<u>17,560,129</u>	<u>18,338,974</u>	<u>778,845</u>
EXPENDITURES					
Current:					
0011	Instruction	10,280,384	10,253,090	10,090,111	162,979
0012	Instructional resources and media sources	175,026	175,026	162,290	12,736
0013	Curriculum and staff development	51,238	50,215	34,774	15,441
0021	Instructional leadership	243,694	243,694	223,949	19,745
0023	School leadership	1,239,231	1,250,631	1,239,779	10,852
0031	Guidance, counseling, and evaluation services	588,006	588,006	578,494	9,512
0033	Health services	158,750	188,651	186,001	2,650
0034	Student transportation	799,820	1,195,934	1,105,846	90,088
0036	Extracurricular activities	774,110	784,399	774,327	10,072
0041	General administration	776,869	758,869	741,521	17,348
0051	Facilities maintenance and operations	2,142,233	2,222,233	2,128,739	93,494
0052	Security and monitoring services	50,943	60,943	57,780	3,163
0053	Data processing services	-	38,000	37,970	30
Debt service:					
0071	Principal on long-term debt	39,000	264,000	264,000	-
0072	Interest on long-term debt	12,000	10,198	10,197	1
0073	Bond issuance costs and fees	-	22,250	22,250	-
0081	Capital outlay	-	686,500	619,356	67,144
0099	Other governmental charges	<u>126,000</u>	<u>151,000</u>	<u>145,210</u>	<u>5,790</u>
6030	Total expenditures	<u>17,457,304</u>	<u>18,943,639</u>	<u>18,422,594</u>	<u>521,045</u>
1100	EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>-</u>	<u>(1,383,510)</u>	<u>(83,620)</u>	<u>1,299,890</u>
OTHER FINANCING SOURCES (USES)					
7913	Proceeds from capital leases	-	336,500	306,940	(29,560)
7914	Tax note proceeds	-	1,025,000	1,025,000	-
8911	Transfers out	<u>-</u>	<u>(35,000)</u>	<u>(5,552)</u>	<u>29,448</u>
7080	Total other financing sources (uses)	<u>-</u>	<u>1,326,500</u>	<u>1,326,388</u>	<u>(112)</u>
1200	NET CHANGE IN FUND BALANCES	-	(57,010)	1,242,768	1,299,778
0100	FUND BALANCES, BEGINNING	<u>5,780,497</u>	<u>5,780,497</u>	<u>5,780,497</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ 5,780,497</u>	<u>\$ 5,723,487</u>	<u>\$ 7,023,265</u>	<u>\$ 1,299,778</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, 2015

Fiscal year*	<u>2015</u>
District's proportion of the net pension liability (asset)	0.5540600%
District's proportionate share of the net pension liability (asset)	\$ 1,479,971
State's proportionate share of the net pension liability (asset) associated with the District	<u>6,980,672</u>
Total	<u>\$ 8,460,643</u>
District's covered-employee payroll	\$ 11,664,510
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	12.69%
Plan fiduciary net position as a percentage of the total pension liability	83.25%

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

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2015

Fiscal year*	<u>2015</u>
Contractually required contribution	\$ 284,265
Contributions in relation to the contractually required contribution	<u>(284,265)</u>
Contribution deficiency (excess)	<u>\$ -</u>
District's covered-employee payroll	\$ 12,183,559
Contribution as a percentage of covered-employee payroll	2.33%

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

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2015

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 SCHEDULES

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2015

	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	\$ -	\$ -	\$ -	\$ 24,951	\$ -
Due from other governments	19,380	51,408	-	-	-
Receivables, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>31,928</u>	<u>-</u>
Total assets	<u>19,380</u>	<u>51,408</u>	<u>-</u>	<u>56,879</u>	<u>-</u>
 LIABILITIES					
Accounts payable	-	-	-	10,023	-
Accrued wages	16,992	44,328	-	39,426	-
Due to other funds	116	324	-	-	-
Accrued expenditures	<u>2,272</u>	<u>6,756</u>	<u>-</u>	<u>7,430</u>	<u>-</u>
Total liabilities	<u>19,380</u>	<u>51,408</u>	<u>-</u>	<u>56,879</u>	<u>-</u>
 FUND BALANCES					
Committed - other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total liabilities and fund balances	<u>\$ 19,380</u>	<u>\$ 51,408</u>	<u>\$ -</u>	<u>\$ 56,879</u>	<u>\$ -</u>

Special Revenue Funds			
255	410	461	
ESEA Title II, A Training and Recruiting	State Textbook	Campus Activity	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 11,218	\$ 36,169
-	17,898	-	88,686
-	-	-	31,928
<u>-</u>	<u>17,898</u>	<u>11,218</u>	<u>156,783</u>
-	-	-	10,023
-	7,222	-	107,968
-	9,926	-	10,366
<u>-</u>	<u>750</u>	<u>-</u>	<u>17,208</u>
<u>-</u>	<u>17,898</u>	<u>-</u>	<u>145,565</u>
<u>-</u>	<u>-</u>	<u>11,218</u>	<u>11,218</u>
<u>-</u>	<u>-</u>	<u>11,218</u>	<u>11,218</u>
<u>\$ -</u>	<u>\$ 17,898</u>	<u>\$ 11,218</u>	<u>\$ 156,783</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, 2015

	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	\$ -	\$ -	\$ -	\$ 537,780	\$ -
State programs	-	-	-	23,685	-
Federal programs	<u>169,455</u>	<u>469,051</u>	<u>5,082</u>	<u>400,672</u>	<u>18,286</u>
Total revenues	<u>169,455</u>	<u>469,051</u>	<u>5,082</u>	<u>962,137</u>	<u>18,286</u>
EXPENDITURES					
Current:					
Instruction	169,455	416,856	5,082	-	18,286
Curriculum and instructional staff development	-	-	-	-	-
Guidance, counseling, and evaluating services	-	52,195	-	-	-
Food services	-	-	-	967,689	-
Total expenditures	<u>169,455</u>	<u>469,051</u>	<u>5,082</u>	<u>967,689</u>	<u>18,286</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,552)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)					
Transfers in	-	-	-	5,552	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,552</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	-	-	-	-	-
FUND BALANCES, BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Special Revenue Funds			
255	410	461	
ESEA Title II, A Training and Recruiting	State Textbook Fund	Campus Activity	Total Nonmajor Governmental
\$ -	\$ -	\$ 232	\$ 538,012
-	257,789	-	281,474
<u>26,676</u>	<u>-</u>	<u>-</u>	<u>1,089,222</u>
<u>26,676</u>	<u>257,789</u>	<u>232</u>	<u>1,908,708</u>
-	257,789	-	867,468
26,676	-	-	26,676
-	-	-	52,195
<u>-</u>	<u>-</u>	<u>-</u>	<u>967,689</u>
<u>26,676</u>	<u>257,789</u>	<u>-</u>	<u>1,914,028</u>
<u>-</u>	<u>-</u>	<u>232</u>	<u>(5,320)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>5,552</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>5,552</u>
-	-	232	232
<u>-</u>	<u>-</u>	<u>10,986</u>	<u>10,986</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 11,218</u>	<u>\$ 11,218</u>

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REQUIRED TEA SCHEDULES

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2015

Last Ten Years Ended June 30,	1		2	3	10	20
	Tax Rates		Debt Service	Net Assessed/ Appraised Value for School Tax Purpose	Beginning Balance 07/01/14	Current Year's Total Levy
	Maintenance					
2006 and prior years	various		various	various	\$ 57,499	\$ -
2007	1.408399		0.170734	396,496,665	10,386	-
2008	1.288800		0.450000	455,846,414	14,410	-
2009	1.000000		0.389640	503,653,997	16,296	-
2010	1.040000		0.397240	527,948,499	19,983	-
2011	1.040000		0.367000	553,420,185	25,667	-
2012	1.040000		0.371400	571,453,592	33,547	-
2013	1.040000		0.334402	599,892,390	43,983	-
2014	1.040000		0.500000	624,769,481	190,662	-
2015 (School year under audit)	1.040000		0.498834	641,169,223	-	<u>9,866,530</u>
1000 Totals					<u>\$ 412,433</u>	<u>\$ 9,866,530</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 06/30/15</u>
\$ 547	\$ 262	\$(3,540)	\$ 53,150
150	72	-	10,164
187	89	-	14,134
268	129	(445)	15,454
(190)	(91)	(378)	19,886
477	229	(536)	24,425
1,581	758	(406)	30,802
7,326	3,514	(380)	32,763
83,136	39,882	(12,974)	54,670
<u>6,540,325</u>	<u>3,137,575</u>	<u>5,044</u>	<u>193,674</u>
<u>\$ 6,633,807</u>	<u>\$ 3,182,419</u>	<u>\$(13,615)</u>	<u>\$ 449,122</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, 2015

		Budgeted Amounts		Actual	Variance with
		Original	Final	Amounts	Final Budget
					Positive
					(Negative)
REVENUES					
5700	Local and intermediate sources	\$ 478,387	\$ 478,387	\$ 537,780	\$ 59,393
5800	State programs	24,681	24,681	23,685	(996)
5900	Federal programs	<u>364,000</u>	<u>364,000</u>	<u>400,672</u>	<u>36,672</u>
5020	Total revenues	<u>867,068</u>	<u>867,068</u>	<u>962,137</u>	<u>95,069</u>
EXPENDITURES					
Current:					
0035	Food service	<u>867,068</u>	<u>967,068</u>	<u>967,689</u>	(621)
6030	Total expenditures	<u>867,068</u>	<u>967,068</u>	<u>967,689</u>	(621)
1100	EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>-</u>	<u>(100,000)</u>	<u>(5,552)</u>	<u>94,448</u>
OTHER FINANCING SOURCES (USES)					
7915	Transfers in	<u>-</u>	<u>35,000</u>	<u>5,552</u>	(29,448)
7080	Total other financing sources (uses)	<u>-</u>	<u>35,000</u>	<u>5,552</u>	(29,448)
1200	NET CHANGE IN FUND BALANCES	-	(65,000)	-	65,000
0100	FUND BALANCES, BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$(65,000)</u>	<u>\$ -</u>	<u>\$ 65,000</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, 2015

		<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
		<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive</u>	
				<u>(Negative)</u>	
REVENUES					
5700	Local and intermediate sources	\$ 2,819,267	\$ 2,819,267	\$ 3,205,280	\$ 386,013
5800	State programs	<u>743,056</u>	<u>743,056</u>	<u>682,302</u>	<u>(60,754)</u>
5020	Total revenues	<u>3,562,323</u>	<u>3,562,323</u>	<u>3,887,582</u>	<u>325,259</u>
EXPENDITURES					
Debt service:					
0071	Principal on long-term debt	1,535,000	1,535,000	1,535,000	-
0072	Interest on long-term debt	2,024,223	2,024,223	2,024,223	-
0073	Bond issuance costs and fees	<u>3,100</u>	<u>3,100</u>	<u>168,567</u>	<u>(165,467)</u>
6030	Total expenditures	<u>3,562,323</u>	<u>3,562,323</u>	<u>3,727,790</u>	<u>(165,467)</u>
1100	EXCESS (DEFICIENCY) OF REVENUES	<u>-</u>	<u>-</u>	<u>159,792</u>	<u>159,792</u>
	OVER EXPENDITURES				
OTHER FINANCING SOURCES (USES)					
7901	Refunding bonds issued	-	-	7,910,000	7,910,000
7916	Premium on issuance of bonds	-	-	1,104,916	1,104,916
8940	Payment to bond refunding escrow agent	<u>-</u>	<u>-</u>	<u>(8,849,449)</u>	<u>(8,849,449)</u>
7080	Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>165,467</u>	<u>165,467</u>
1200	NET CHANGE IN FUND BALANCES	<u>-</u>	<u>-</u>	<u>325,259</u>	<u>325,259</u>
0100	FUND BALANCES, BEGINNING	<u>3,557,205</u>	<u>3,557,205</u>	<u>3,557,205</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ 3,557,205</u>	<u>\$ 3,557,205</u>	<u>\$ 3,882,464</u>	<u>\$ 325,259</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, 2015, 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 3, 2015.

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 3, 2015



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

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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, 2015. China Spring Independent School District's major federal programs are identified in the summary of auditors' 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.

Auditors' 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2015.

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 OMB Circular A-133, 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

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

Waco, Texas
November 3, 2015

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2015

(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	714014	\$ 10,710
School Breakfast Program	10.553	714015	64,936
National School Lunch Program	10.555	713014	42,063
National School Lunch Program	10.555	713015	240,861
Total Passed through the Texas Education Agency			<u>358,570</u>
<u>Passed through the Texas Department of Agriculture</u>			
National School Lunch Program			
Commodities - Noncash Assistance	10.555	161007A	41,518
National School Lunch Program	10.555	00793	584
Total Passed through the Texas Department of Agriculture			<u>42,102</u>
Total Child Nutrition Cluster			<u>400,672</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE			<u>400,672</u>
U. S. DEPARTMENT OF EDUCATION			
<u>Passed through the Texas Education Agency</u>			
Title I, Part A - Improving Basic Programs	84.010	15610101161920	169,455
Total Title I, Part A Cluster			<u>169,455</u>
IDEA B Formula	84.027	156600011619206600	469,051
IDEA B Preschool	84.173	156610011619206610	5,082
Total IDEA B Cluster			<u>474,133</u>
Carl D. Perkins Basic Formula	84.048A	154200006161920	18,286
Title II, Part A - Teacher and Principal Training	84.367A	15694501161920	26,676
Total Title II, Part A Cluster			<u>26,676</u>
Total Passed through the Texas Education Agency			<u>688,550</u>
TOTAL U. S. DEPARTMENT OF EDUCATION			<u>688,550</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,089,222</u>

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS

JUNE 30, 2015

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 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. The modified accrual basis of accounting is described in Note I of the financial statements.

3. RECONCILIATION OF FEDERAL REVENUES AND THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Federal revenues per the Statement of Revenues, Expenditures and Changes in Fund Balance - Governmental Funds (Exhibit C-3)	\$ 1,441,866
School health and related services revenue	<u>(352,644)</u>
Federal expenditures per the Schedule of Expenditures of Federal Awards (Exhibit K-1)	<u>\$ 1,089,222</u>

**CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

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?	None reported

Federal Awards

Internal control over major programs: Material weakness(es) identified?	No
Significant deficiency(ies) identified?	None reported

Type of auditors' report on compliance for major programs	Unmodified
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Any audit findings disclosed that are required to be reported in accordance with Section 510(a), OMB Circular A-133	No
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Identification of major programs: CFDA Numbers: 10.553 and 10.555	Name of Federal Program or Cluster: Child Nutrition Cluster
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Dollar threshold used to distinguish between Type A and Type B programs	\$300,000
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Auditee qualified as low-risk auditee?	Yes
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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, 2015**

None.