



China Spring ISD

**ANNUAL FINANCIAL REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2018**

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED JUNE 30, 2018

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	46
G-2 Schedule of the District's Proportionate Share of the Net Pension Liability	47
G-3 Schedule of District Contributions Teacher Retirement System	48
G-4 Schedule of the District's Proportionate Share of the Net OPEB Liability	49
G-5 Schedule of District OPEB Contributions Teacher Retirement System	50
Notes to Required Supplementary Information	51
<u>Combining Statements</u>	
Nonmajor Governmental Funds:	
H-1 Combining Balance Sheet	52
H-2 Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	54
<u>Required TEA Schedules</u>	
J-1 Schedule of Delinquent Taxes Receivable	56
J-4 Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – National School Breakfast and Lunch Program	58
J-5 Schedule of Revenues, Expenditures, and Changes in Fund Balance Budget and Actual – Debt Service Fund	59
<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>	60
Independent Auditors' Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance in Accordance with the Uniform Guidance	62
K-1 Schedule of Expenditures of Federal Awards	64
Notes to Schedule of Expenditures of Federal Awards	65
Schedule of Findings and Questioned Costs	66
Summary Schedule of Prior Audit Findings	67

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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, 2018, at a meeting of the Board of Trustees of such school district on the 15th day of October 2018.

signed copy on file

Signature of Board Secretary

signed copy on file

Signature of Board President

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

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

INDEPENDENT AUDITORS' REPORT

The Board of Trustees of
China Spring Independent School District
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, 2018, and the related notes to the financial statements, which collectively comprise 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of China Spring Independent School District, as of June 30, 2018, 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 the notes to the financial statements, in fiscal year 2018 the District adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. 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, pension and OPEB information on pages 5-11 and 46-51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining statements, required TEA schedules and the Schedule of Expenditures of Federal Awards 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 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 October 12, 2018, on our consideration of China Spring Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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
October 12, 2018

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CHINA SPRING INDEPENDENT SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

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, 2018. 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 and deferred inflows at the close of the most recent fiscal year by \$18,053,376 (*net position*). Of this amount, (\$1,882,844) (*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 \$4,267,505 before a prior period adjustment of (\$12,106,258). Adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits other than Pensions*, required a prior period adjustment to report the effect of GASB 75 retroactively.
- As of the close of the current fiscal year, the District's governmental funds reported combined ending fund balances of \$14,140,534, an increase of \$1,217,008 in comparison with the prior year. This change was primarily due to an increase in state and federal funding District wide.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$9,622,181, or 43% of total General Fund expenditures, an increase of \$422,194 or 4%, 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. 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 \$25,892,151 to \$18,053,376. 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 (\$1,882,844) at June 30, 2018.

The net position of governmental activities decreased by 30.3%, \$18,053,376 in 2018 from \$25,892,151 in 2017. The District's increase in net position was \$4,267,505, before a prior period adjustment of (\$12,106,258) for the year 2018. The prior period adjustment was due to the implementation of GASB 75 as previously mentioned.

TABLE 1
CHINA SPRING INDEPENDENT SCHOOL DISTRICT
NET POSITION

	Governmental Activities	
	2018	2017
Current and other assets	\$ 16,808,046	\$ 15,446,802
Capital assets	<u>55,127,821</u>	<u>55,897,574</u>
Total assets	71,935,867	71,344,376
Total deferred outflows of resources	<u>3,310,690</u>	<u>3,544,542</u>
Long-term liabilities	51,002,634	46,177,315
Other liabilities	<u>2,747,396</u>	<u>2,591,585</u>
Total liabilities	<u>53,750,030</u>	<u>48,768,900</u>
Total deferred inflows of resources	<u>3,443,151</u>	<u>227,867</u>
Net position:		
Net investment in capital assets	16,137,400	15,352,311
Restricted	3,798,820	2,941,335
Unrestricted	<u>(1,882,844)</u>	<u>7,598,505</u>
Total net position	<u>\$ 18,053,376</u>	<u>\$ 25,892,151</u>

TABLE 2
CHINA SPRING INDEPENDENT SCHOOL DISTRICT
CHANGES IN NET POSITION

	Governmental Activities	
	2018	2017
REVENUES		
Program revenues:		
Charges for services	\$ 1,164,464	\$ 1,423,700
Operating grants and contributions	(922,787)	3,348,356
General revenues:		
Maintenance and operations taxes	8,449,495	7,533,688
Debt service taxes	2,831,035	2,760,785
Grants and contributions not restricted	12,965,233	12,320,705
Investment earnings	143,010	82,081
Miscellaneous	26,948	110,704
Total revenues	<u>24,657,398</u>	<u>27,580,019</u>
EXPENSES		
Instruction	10,037,660	13,788,382
Instructional resources and media services	155,976	207,631
Curriculum and staff development	116,665	83,940
Instructional leadership	188,007	243,686
School leadership	907,995	1,431,451
Guidance, counseling and evaluation services	677,527	858,445
Health services	151,581	210,764
Student (pupil) transportation	882,433	1,036,854
Food services	1,046,445	1,162,179
Co-curricular/extracurricular activities	1,319,290	1,430,335
General administration	663,997	813,204
Plant maintenance and operations	2,503,087	2,701,348
Security and monitoring services	96,297	59,323
Data processing services	55,778	39,598
Debt service - interest on long-term debt	1,438,874	1,258,645
Debt service - bond issuance cost and fees	3,898	125,554
Other governmental charges	144,383	129,851
Total expenses	<u>20,389,893</u>	<u>25,581,190</u>
INCREASE IN NET POSITION	4,267,505	1,998,829
NET POSITION, BEGINNING	<u>25,892,151</u>	<u>23,893,322</u>
PRIOR PERIOD ADJUSTMENT	(12,106,280)	-
NET POSITION, ENDING	<u>\$ 18,053,376</u>	<u>\$ 25,892,151</u>

The cost of all governmental activities this year was \$20,389,893. However, the amount that the taxpayers ultimately financed for these activities through District taxes was \$7,182,983 because some of the cost was paid by those who directly benefited from the programs (\$1,164,464), by other governments and organizations that subsidized certain programs with operating grants and contributions (\$922,787), or by other grants and contributions not restricted (\$12,965,233).

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 \$14,140,534, which is more than last year's total of \$12,923,526. Total governmental revenue increased in fiscal year 2018 by \$1.45 million. The majority of this increase is primarily due to an increase in state and federal funding.

The General Fund is the chief operating fund of the District. At the end of the current fiscal year, total General fund balance was \$9,622,181, of which, \$9,622,181 was unassigned. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund expenditures. Unassigned General fund balance represents 43.21% of total General fund expenditures.

The fund balance of the District's General Fund increased \$422,194 during the current year. Key factors in this growth are an increase in the District's assessed property valuation, and the District made an effort to maintain its operating expenditures in the current year due to the level of funding in the current year and the uncertainty of funding from TEA in future years.

The Debt Service Fund has a total fund balance of \$4,259,416, 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 \$821,181, which was due to a decrease in the District's debt service payments on outstanding bonds.

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 \$9,622,181 reported on pages 16 and 46 differs from the General Fund's final budgetary fund balance of \$8,143,879. This is principally due to budgeted uses of fund balance for the purchase of buses and the construction of a football scoreboard that were deferred until the 2019 school year. The District also budgets conservatively for revenues due to uncertainty of funds to be received from TEA in current and future years.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018, the District had approximately \$55.1 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 \$40.5 million in long-term liabilities outstanding as of June 30, 2018. During the current year, the District made annual debt service payments to reduce bonds in the amount of approximately \$1,533,910. More detailed information about the District's long-term liabilities is presented on pages 29 through 31 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 2019 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 2019. 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, 2018

Data Control Codes		1 <u>Primary Government</u> Governmental <u>Activities</u>
ASSETS		
1110	Cash and cash equivalents	\$ 12,543,549
1220	Delinquent property taxes receivables	494,004
1230	Allowance for uncollectible taxes	(182,439)
1240	Due from other governments	3,677,139
1290	Other receivables	275,793
	Capital assets:	
1510	Land	597,491
1520	Buildings and improvements, net	52,980,979
1530	Furniture and equipment, net	1,537,453
1580	Construction in progress	<u>11,898</u>
1000	Total assets	<u>71,935,867</u>
DEFERRED OUTFLOWS OF RESOURCES		
1701	Deferred loss on bond refunding	1,479,636
1705	Deferred outflow related to pensions	1,730,390
1706	Deferred outflow related to other post-employment benefit	<u>100,664</u>
1700	Total deferred outflows of resources	<u>3,310,690</u>
LIABILITIES		
2110	Accounts payable	144,854
2140	Interest payable	563,599
2150	Payroll deductions and withholdings	9,941
2160	Accrued wages	1,818,028
2180	Due to other governments	33,961
2200	Accrued expenses	145,334
2300	Unearned revenue	31,679
	Noncurrent liabilities:	
2501	Due within one year	1,943,449
2502	Due in more than one year	38,511,621
2540	Net pension liability	3,651,257
2545	Net other post-employment benefit liability	<u>6,896,307</u>
2000	Total liabilities	<u>53,750,030</u>
DEFERRED INFLOWS OF RESOURCES		
2605	Deferred inflow related to pensions	558,412
2606	Deferred inflow related to other post-employment benefit	<u>2,884,739</u>
2600	Total deferred inflows of resources	<u>3,443,151</u>
NET POSITION		
3200	Net investment in capital assets	16,137,400
	Restricted for:	
3850	Debt service	3,798,820
3900	Unrestricted	<u>(1,882,844)</u>
3000	Total net position	<u>\$ 18,053,376</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, 2018

Data Control Codes	Functions/Programs	1 Expenses	Program Revenues		Net (Expenses)
			3 Charges for Services	4 Operating Grants and Contributions	Revenue and Changes in Net Position 6 Governmental Activities
Primary government:					
Governmental activities:					
11	Instruction	\$ 10,037,660	\$ -	\$(1,334,241)	\$(11,371,901)
12	Instructional resources and media services	155,976	-	(31,468)	(187,444)
13	Curriculum and staff development	116,665	-	17,103	(99,562)
21	Instructional leadership	188,007	-	(30,789)	(218,796)
23	School leadership	907,995	-	(193,263)	(1,101,258)
31	Guidance, counseling, and evaluation services	677,527	-	(6,933)	(684,460)
33	Health services	151,581	-	(35,475)	(187,056)
34	Student transportation	882,433	-	(81,462)	(963,895)
35	Food service	1,046,445	672,745	410,039	36,339
36	Extracurricular activities	1,319,290	491,719	(91,308)	(918,879)
41	General administration	663,997	-	(94,499)	(758,496)
51	Facilities maintenance and operations	2,503,087	-	(185,166)	(2,688,253)
52	Security and monitoring services	96,297	-	(18,816)	(115,113)
53	Data processing services	55,778	-	-	(55,778)
72	Interest on long-term debt	1,438,874	-	753,491	(685,383)
73	Bond issuance costs and fees	3,898	-	-	(3,898)
99	Other governmental changes	144,383	-	-	(144,383)
TG	Total governmental activities	\$ 20,389,893	\$ 1,164,464	\$(922,787)	(20,148,216)

Data Control Codes	General revenues:	
Taxes:		
MT	Property taxes, levied for general purposes	8,449,495
DT	Property taxes, levied for debt service	2,831,035
GC	Grants and contributions not restricted	12,965,233
IE	Investment earnings	143,010
MI	Miscellaneous	26,948
TR	Total general revenues	24,415,721
CN	Change in net position	4,267,505
NB	Net position--beginning	25,892,151
PA	Prior period adjustment	(12,106,280)
NE	Net position--ending	\$ 18,053,376

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

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2018

Data Control Codes	10	50	98	Total Governmental Funds	
	General	Debt Service	Other Governmental		
ASSETS					
1110	Cash and cash equivalents	\$ 7,926,824	\$ 4,271,445	\$ 345,280	\$ 12,543,549
1220	Delinquent property taxes receivable	361,269	132,735	-	494,004
1230	Allowance for uncollectible taxes	(133,419)	(49,020)	-	(182,439)
1240	Due from other governments	3,462,414	-	214,725	3,677,139
1260	Due from other funds	127,502	-	-	127,502
1290	Other receivables	217,662	41,220	16,911	275,793
1000	Total assets	<u>11,962,252</u>	<u>4,396,380</u>	<u>576,916</u>	<u>16,935,548</u>
LIABILITIES					
2110	Accounts payable	118,129	-	26,725	144,854
2150	Payroll deductions and withholdings	9,941	-	-	9,941
2160	Accrued wages	1,694,692	-	123,336	1,818,028
2170	Due to other funds	-	-	127,502	127,502
2180	Due to other governments	-	33,961	-	33,961
2200	Accrued expenditures	127,372	-	17,962	145,334
2300	Unearned revenue	9,225	-	22,454	31,679
2000	Total liabilities	<u>1,959,359</u>	<u>33,961</u>	<u>317,979</u>	<u>2,311,299</u>
DEFERRED INFLOWS OF RESOURCES					
2610	Unavailable revenue	380,712	103,003	-	483,715
2600	Total deferred inflows of resources	<u>380,712</u>	<u>103,003</u>	<u>-</u>	<u>483,715</u>
FUND BALANCES					
Restricted:					
3450	Food service	-	-	44,598	44,598
3480	Debt service	-	4,259,416	-	4,259,416
3545	Committed - other	-	-	214,339	214,339
3600	Unassigned	9,622,181	-	-	9,622,181
3000	Total fund balances	<u>9,622,181</u>	<u>4,259,416</u>	<u>258,937</u>	<u>14,140,534</u>
4000	Total liabilities, deferred inflows of resources and fund balances	<u>\$ 11,962,252</u>	<u>\$ 4,396,380</u>	<u>\$ 576,916</u>	<u>\$ 16,935,548</u>

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

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET POSITION
JUNE 30, 2018

Total fund balances - governmental funds	\$	14,140,534
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		55,127,821
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.		396,883
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.		86,832
Long-term liabilities, including compensated absences, retainage, capital lease, bonds and tax notes payable, are not due and payable in the current period and therefore are not reported in the funds. Also, the loss on refunding of bonds and the premium on issuance of bonds payable are not reported in the funds.	(38,975,434)
Interest payable is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(563,599)
Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68. The net position related to pensions included a deferred resource outflow in the amount of \$1,938,398, a deferred resource inflow in the amount of \$227,867, and a net pension liability in the amount of \$3,953,051.	(2,479,279)
Included in the items related to debt is the recognition of the District's proportionate share of the net other post-employment benefit (OPEB) liability required by GASB 75. The net position related to the OPEB included a deferred resource outflow in the amount of \$100,664, a deferred resource inflow in the amount of \$2,884,739, and a net OPEB liability in the amount of \$6,896,307.	(<u>9,680,382</u>)
Net position of governmental activities	\$	<u>18,053,376</u>

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2018

Data Control Codes	10 General	50 Debt Service	98 Other Governmental	Total Governmental Funds	
REVENUES					
5700	Local and intermediate sources	\$ 8,734,842	\$ 2,862,921	\$ 1,058,457	\$ 12,656,220
5800	State programs	13,553,826	753,491	274,493	14,581,810
5900	Federal programs	402,141	-	1,237,761	1,639,902
5020	Total revenues	<u>22,690,809</u>	<u>3,616,412</u>	<u>2,570,711</u>	<u>28,877,932</u>
EXPENDITURES					
Current:					
0011	Instruction	12,651,607	-	825,139	13,476,746
0012	Instructional resources and media services	187,998	-	-	187,998
0013	Curriculum and staff development	53,478	-	60,820	114,298
0021	Instructional leadership	256,294	-	-	256,294
0023	School leadership	1,269,264	-	-	1,269,264
0031	Guidance, counseling, and evaluation services	851,824	-	126,363	978,187
0033	Health services	205,738	-	-	205,738
0034	Student transportation	1,519,980	-	-	1,519,980
0035	Food service	-	-	1,160,668	1,160,668
0036	Extracurricular activities	965,281	-	424,088	1,389,369
0041	General administration	805,002	-	-	805,002
0051	Facilities maintenance and operations	2,713,692	-	-	2,713,692
0052	Security and monitoring services	146,418	-	-	146,418
0053	Data processing services	55,778	-	-	55,778
Debt service:					
0071	Principal on long-term debt	268,910	1,265,000	-	1,533,910
0072	Interest on long-term debt	29,884	1,526,333	-	1,556,217
0073	Bond issuance costs and fees	-	3,898	-	3,898
0081	Capital outlay	143,084	-	-	143,084
Intergovernmental:					
0099	Other intergovernmental charges	144,383	-	-	144,383
6030	Total expenditures	<u>22,268,615</u>	<u>2,795,231</u>	<u>2,597,078</u>	<u>27,660,924</u>
1200	NET CHANGE IN FUND BALANCES	422,194	821,181	(26,367)	1,217,008
0100	FUND BALANCES, BEGINNING	<u>9,199,987</u>	<u>3,438,235</u>	<u>285,304</u>	<u>12,923,526</u>
3000	FUND BALANCES, ENDING	<u>\$ 9,622,181</u>	<u>\$ 4,259,416</u>	<u>\$ 258,937</u>	<u>\$ 14,140,534</u>

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

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, 2018

Net change in fund balances - total governmental funds	\$ 1,217,008
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.	(769,753)
Property tax and SHARS settlement revenues that do not provide current financial resources are not reported as revenues in the funds.	(35,129)
Bond, tax note and capital lease proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond, tax note, and capital lease principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which proceeds exceeded repayments.	1,533,910
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.	132,330
GASB 68 Required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$340,975. Contributions made before the measurement date and during the previous fiscal year were expended and recorded as a reduction in net pension liability. This caused a decrease in net position totaling \$314,477. Finally, the proportionate share of pension expense on the plans as a whole had to be recorded. The net pension expense decreased the change in net position by \$263,257.	(<u>236,759</u>)
GASB 75 Required that certain plan expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of the plan caused the change in ending net position to increase by \$99,585. Contributions made before the measurement date and during the previous fiscal year were expended and recorded as a reduction in net OPEB liability. This caused a decrease in net position totaling \$68,802. Finally, the proportionate share of OPEB expense on the plans as a whole had to be recorded. The net OPEB expense increased the change in net position by \$2,395,115.	<u>2,425,898</u>
Change in net position of governmental activities	\$ <u><u>4,267,505</u></u>

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018

	<u>Agency Funds</u>
ASSETS	
Cash and cash equivalents	\$ <u>75,586</u>
Total assets	\$ <u><u>75,586</u></u>
LIABILITIES	
Due to student groups	\$ <u>75,586</u>
Total liabilities	\$ <u><u>75,586</u></u>

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

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

China Spring Independent School District (the “District”) is a public educational agency operating under the applicable laws and regulations of the State of Texas. It is governed by a seven-member Board of Trustees (the “Board”) elected by registered voters of the District. The District prepares its financial statements in conformity with generally accepted accounting principles and it complies with the requirements of the appropriate version of Texas Education Agency’s *Financial Accountability System Resource Guide* (the “Resource Guide”).

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

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

B. Government-wide and Fund Financial Statements

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

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

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

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

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

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

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

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

The District reports the following major governmental funds:

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

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

Additionally, the District reports the following fund type:

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

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

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

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

1. Deposits and Investments

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

Investments for the District are reported at fair value, except for the position in investment pools. The District's investments in Pools are reported at the net asset value per share (which approximates fair value) even though it is calculated using the amortized cost method.

TexPool, LOGIC, Texas Term Texas Daily and Texas Class have a redemption notice period of one day and may redeem daily. The investment pool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium or national state of emergency that affects the pool's liquidity.

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 37% of outstanding property taxes at June 30, 2018.

3. *Capital Assets*

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

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

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

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

4. *Compensated Absences*

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

5. *Long-term Obligations*

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

6. *Deferred outflows/inflows of resources*

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. 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 and other post-employment benefit (OPEB) liabilities.

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 two sources: property taxes and School Health and Related Services (SHARS). 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 and OPEB liabilities. These items are reported in the government-wide statement of net position.

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. *Other Post-Employment Benefits*

The fiduciary net position of the Teacher Retirement System of Texas (TRS) TRS Care Plan 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 OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions to/deductions from TRS Care's fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as this is a pay-as-you-go plan and all cash is held in a cash account.

9. 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.

10. 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.

11. 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.

12. 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.

13. 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.

14. 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.

15. 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.

16. 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, 2018, will change.

II. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

Interest Rate Risk

As a means of limiting its exposure to interest rate risk, the District diversifies its investments by security type and institution, and limits holdings in any one type of investment with any one issuer. The District coordinates its investment maturities to closely match cash flow needs and restricts the maximum investment term to less than one year from the purchase date. As of June 30, 2018, the District managed its interest rate risk as follows:

<u>Investment Type</u>	<u>Reported Value</u>	<u>Weighted Average Maturity (Days)</u>
TexPool	\$ 28,299	24
LOGIC	2,816,472	30
Texas Term Texas Daily	4,201,058	38
Texas CLASS	3,328,777	50

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, 2018, 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.

Investment Credit Risk

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

TexPool	AAAm
LOGIC	AAAm
Texas Term	AAAm
Texas CLASS	AAAm

Public Funds Investment Pools

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

B. Due from Other Governments

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the state through the School Foundation and Per Capita Programs. Amounts due from local, federal and state governments as of June 30, 2018, are summarized below.

	Grants	State Entitlements
General fund	\$ -	\$ 3,462,414
Nonmajor governmental funds	214,725	-
	<u>\$ 214,725</u>	<u>\$ 3,462,414</u>

C. Interfund Balances

The composition of interfund balances as of June 30, 2018, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General fund	Nonmajor governmental	\$ 127,502
		<u>\$ 127,502</u>

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

D. Other Receivables

Other receivables consisted of the following balances as of June 30, 2018:

	<u>General</u>	<u>Debt Service</u>	<u>Other Governmental</u>	<u>Total</u>
Property tax penalties and interest	\$ 207,439	\$ 65,356	\$ -	\$ 272,795
SHARS	86,832	-	-	86,832
Food service - Sodexo	-	-	16,911	16,911
Allowance for uncollectibles	<u>(76,609)</u>	<u>(24,136)</u>	<u>-</u>	<u>(100,745)</u>
Total, net	<u>\$ 217,662</u>	<u>\$ 41,220</u>	<u>\$ 16,911</u>	<u>\$ 275,793</u>

E. Capital Assets

Capital asset activity for the year ended June 30, 2018, was as follows:

	<u>Beginning Balance 06/30/17</u>	<u>Increases</u>	<u>Decreases/ Reclassifications</u>	<u>Ending Balance 06/30/18</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 597,491	\$ -	\$ -	\$ 597,491
Construction in progress	<u>26,494</u>	<u>11,898</u>	<u>(26,494)</u>	<u>11,898</u>
Total capital assets, not being depreciated	<u>623,985</u>	<u>11,898</u>	<u>(26,494)</u>	<u>609,389</u>
Capital assets, being depreciated:				
Buildings and improvements	71,345,910	246,802	26,494	71,619,206
Machinery and equipment	<u>3,384,157</u>	<u>971,117</u>	<u>-</u>	<u>4,355,274</u>
Total capital assets, being depreciated	<u>74,730,067</u>	<u>1,217,919</u>	<u>26,494</u>	<u>75,974,480</u>
Less accumulated depreciation for:				
Buildings and improvements	(17,115,144)	(1,523,083)	-	(18,638,227)
Machinery and equipment	<u>(2,341,334)</u>	<u>(476,487)</u>	<u>-</u>	<u>(2,817,821)</u>
Total accumulated depreciation	<u>(19,456,478)</u>	<u>(1,999,570)</u>	<u>-</u>	<u>(21,456,048)</u>
Total capital assets, being depreciated, net	<u>55,273,589</u>	<u>(781,651)</u>	<u>26,494</u>	<u>54,518,432</u>
Total capital assets, net	<u>\$ 55,897,574</u>	<u>\$ (769,753)</u>	<u>\$ -</u>	<u>\$ 55,127,821</u>

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

Governmental activities:	
Instruction	\$ 949,817
Instructional resources media services	28,159
Curriculum and staff development	2,367
Instructional leadership	2,367
School leadership	66,854
Guidance counseling and evaluation services	28,159
Health services	15,264
Student pupil transportation	408,243
Food services	53,959
Co-curricular/extracurricular	198,205
General administration	83,405
Plant maintenance and operations	159,809
Security and monitoring services	<u>2,962</u>
 Total depreciation expense - governmental activities	 <u>\$ 1,999,570</u>

F. Deferred Inflows of Resources – Unavailable Revenue

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

	<u>General Fund</u>	<u>Debt Service Fund</u>
Unavailable - property taxes	\$ 293,880	\$ 103,003
Unavailable - SHARS	<u>86,832</u>	<u>-</u>
Totals	<u>\$ 380,712</u>	<u>\$ 103,003</u>

G. Long-term Debt

Governmental long-term liability activity for the year ended June 30, 2018, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Bonds payable	\$ 38,410,000	\$ -	\$ 1,265,000	\$ 37,145,000	\$ 1,610,000
Premium/discount on bonds	2,864,603	-	220,297	2,644,306	220,296
Tax notes	635,000	-	85,000	550,000	90,000
Capital leases	183,910	-	183,910	-	-
Compensated absences	<u>130,751</u>	<u>143,741</u>	<u>158,728</u>	<u>115,764</u>	<u>23,153</u>
Total	<u>\$ 42,224,264</u>	<u>\$ 143,741</u>	<u>\$ 1,912,935</u>	<u>\$ 40,455,070</u>	<u>\$ 1,943,449</u>

The net pension liability and compensated absences are generally paid from the General Fund and appropriate Special Revenue Funds.

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

Description	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Balance Outstanding at Year-End	Amounts Due in One Year
Bonds:					
Building Bonds Series 2007	4.0% to 5.0%	\$ 21,999,939	\$ 33,495	\$ 525,000	\$ 525,000
Unlimited Tax Refunding Bonds Series 2011	1.0% to 3.0%	3,605,000	19,050	325,000	325,000
Unlimited Tax School Building Bonds Series 2013	2.0% to 5.0%	15,210,000	699,538	14,695,000	130,000
Unlimited Tax Refunding Bonds Series 2015	2.0% to 4.0%	7,910,000	298,900	7,800,000	-
Unlimited Tax Refunding Bonds Series 2016	3.0% to 4.0%	8,545,000	321,350	8,545,000	-
Unlimited Tax Refunding Bonds Series 2016A	2.0% to 4.0%	5,560,000	154,000	5,255,000	630,000
Limited Maintenance					
Tax Notes:					
Series 2015	2.0%	565,000	10,319	410,000	55,000
Series 2017	2.7%	170,000	4,526	140,000	35,000
Capital Lease:					
Dell - Wireless Project	4.6%	306,940	15,041	-	-
Totals			\$ 1,556,219	\$ 37,695,000	\$ 1,700,000

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
2019	\$ 1,610,000	\$ 1,482,875	\$ 3,092,875
2020	1,290,000	1,438,788	2,728,788
2021	1,550,000	1,400,088	2,950,088
2022	1,595,000	1,352,913	2,947,913
2023	1,640,000	1,300,438	2,940,438
2024-2028	8,795,000	5,576,059	14,371,059
2029-2033	8,020,000	3,969,175	11,989,175
2034-2038	4,920,000	1,177,375	6,097,375
2039-2043	6,275,000	2,566,703	8,841,703
2044	<u>1,450,000</u>	<u>38,250</u>	<u>1,488,250</u>
Total	<u>\$ 37,145,000</u>	<u>\$ 20,302,664</u>	<u>\$ 57,447,664</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, 2018.

Tax note debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total Requirements
2019	\$ 90,000	\$ 12,882	\$ 102,882
2020	90,000	10,716	100,716
2021	90,000	8,550	98,550
2022	95,000	6,384	101,384
2023	60,000	4,107	64,107
2024-2028	<u>125,000</u>	<u>4,218</u>	<u>129,218</u>
Total	<u>\$ 550,000</u>	<u>\$ 46,857</u>	<u>\$ 596,857</u>

H. Fund Balance

As of June 30, 2018, governmental fund balance is composed of the following:

Fund Balance Classification	General	Debt Service	Other Governmental	Totals
Restricted:				
Retirement of long-term debt	\$ -	\$ 4,259,416	\$ -	\$ 4,259,416
Food Service	-	-	44,598	44,598
Committed - student activity groups	-	-	214,339	214,339
Unassigned	<u>9,622,181</u>	<u>-</u>	<u>-</u>	<u>9,622,181</u>
Total governmental fund balance	<u>\$ 9,622,181</u>	<u>\$ 4,259,416</u>	<u>\$ 258,937</u>	<u>\$ 14,140,534</u>

I. Defined Benefit Pension Plan

Plan Description. The District participates in a cost-sharing multiple-employer defined benefit pension that has a special funding situation. The plan is administered by the Teacher Retirement System of Texas (TRS). It is a defined benefit pension plan established and administered in accordance with the Texas Constitution, Article XVI, Section 67 and Texas Government Code, Title 8, Subtitle C. The pension trust fund is a qualified pension trust under Section 401(a) of the Internal Revenue Code. The Texas Legislature establishes benefits and contribution rates within the guidelines of the Texas Constitution. The pension's Board of Trustees does not have the authority to establish or amend benefit terms.

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

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

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

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

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

	Contribution Rates	
	2017	2018
Member	7.7%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Current fiscal year employer contributions		\$ 400,528
Current fiscal year member contributions		1,141,337
2017 measurement year NECE on-behalf contributions		760,675

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

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

- On the portion of the member's salary that exceeds the statutory minimum for members entitled to the statutory minimum under Section 21.402 of the Texas Education Code.
- During a new member's first 90 days of employment.
- When any part or all of an employee's salary is paid by federal funding sources, a privately sponsored source, from non-educational and general, or local funds.
- When the employing district is a public junior college or junior college district, the employer shall contribute to the retirement system an amount equal to 50% of the state contribution rate for certain instructional or administrative employees; and 100% of the state contribution rate for all other employees.

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

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

Actuarial Assumptions. The total pension liability in the August 31, 2017, actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	8/31/2017
Actuarial Cost Method	Individual Entry Age Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.50%
Salary Increases including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.50%
Benefit Changes During the Year	None
Ad Hoc Post-Employment Benefit Changes	None

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

Discount Rate. The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2017, are summarized below:

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

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

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

	1% Decrease in		1% Increase in	
	Discount Rate (7.0%)	Discount Rate (8.0%)	Discount Rate (8.0%)	Discount Rate (9.0%)
District's proportionate share of the net pension liability	\$ 6,155,298	\$ 3,651,257	\$ 3,651,257	\$ 1,566,237

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At June 30, 2018, the District's liability was \$3,651,257 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related State support, and the total portion of the net pension liability that was associated with the District were as follows:

District's proportionate share of the collective net pension liability	\$ 3,651,257
State's proportionate share that is associated with the District	7,436,781
Total	<u>\$ 11,088,038</u>

The net pension liability was measured as of August 31, 2017 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, 2016 thru August 31, 2017.

At August 31, 2017 the employer's proportion of the collective net pension liability was 0.0114192386% which was a decrease of .0009582529% from its proportion measured as of August 31, 2016.

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

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

For the year ended June 30, 2018, the District's pension expense was \$1,144,982 and revenue of \$567,248 for support provided by the State.

At June 30, 2018, the District's proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 53,420	\$ 196,908
Changes in actuarial assumptions	166,321	95,215
Differences between projected and actual investment earnings	-	266,096
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	1,169,674	193
Contributions paid to TRS subsequent to the measurement date	<u>340,975</u>	<u>-</u>
Total as of fiscal year-end	<u>\$ 1,730,390</u>	<u>\$ 558,412</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:

For the Year Ended June 30,	Pension Expense
2019	\$ 151,531
2020	384,600
2021	133,620
2022	59,107
2023	68,485
Thereafter	33,660

J. Health Care Coverage

During the period ended June 30, 2018, 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. Defined Other Post-Employment Benefit Plans

Plan Description. China Spring Independent School District in the Texas Public School Retired Employees Group Insurance Program (TRS-Care). It is a multiple-employer, cost-sharing defined Other Post-Employment Benefit (OPEB) plan that has a special funding situation. The plan is administered through a trust by the Teacher Retirement System of Texas (TRS) Board of Trustees. It is established and administered in accordance with the Texas Insurance Code, Chapter 1575.

OPEB Plan Fiduciary Net Position. Detail information about the TRS-Care’s fiduciary net position is available in the separately-issued TRS 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-Care provides a basic health insurance coverage (TRS-Care 1), at no cost to all retirees from public schools, charter schools, regional education service centers and other educational districts who are members of the TRS pension plan. Optional dependent coverage is available for an additional fee.

Eligible retirees and their dependents not enrolled in Medicare may pay premiums to participate in one of two optional insurance plans with more comprehensive benefits (TRS-Care 2 and TRS-Care 3). Eligible retirees and dependents enrolled in Medicare may elect to participate in one of the two Medicare health plans for an additional fee. To qualify for TRS-Care coverage, a retiree must have at least 10 years of service credit in the TRS pension system. The Board of Trustees is granted the authority to establish basic and optional group insurance coverage for participants as well as to amend benefit terms as needed under Chapter 1575.052. There are no automatic post-employment benefit changes; including automatic COLAs.

The premium rates for the optional health insurance are based on years of service of the member. The schedule below shows the monthly rates for the average retiree with Medicare Parts A&B coverage, with 20 to 29 years of service for the basic plan and the two optional plans.

TRS-Care Plan Premium Rates			
Effective Sept. 1, 2016 - Dec. 31, 2017			
	TRS-Care 1	TRS-Care 2	TRS-Care 3
	Basic Plan	Optional Plan	Optional Plan
Retiree*	\$ -	\$ 70	\$ 100
Retiree and Spouse	20	175	255
Retiree* and Children	41	132	182
Retiree and Family	61	237	337
Surviving Children only	28	62	82

Contributions. Contribution rates for the TRS-Care plan are established in state statute by the Texas Legislature, and there is no continuing obligation to provide benefits beyond each fiscal year. The TRS-Care plan is currently funded on a pay-as-you-go basis and is subject to change based on available funding. Funding for TRS-Care is provided by retiree premium contributions and contributions from the state, active employees, and school districts based upon public school district payroll. The TRS Board of trustees does not have the authority to set or amend contribution rates.

Texas Insurance Code, section 1575.202 establishes the state’s contribution rate which is 1.0% of the employee’s salary. Section 1575.203 establishes the active employee’s rate which is .65% of pay. Section 1575.204 establishes an employer contribution rate of not less than 0.25 percent or not more than 0.75 percent of the salary of each active employee of the public. The actual employer contribution rate is prescribed by the Legislature in the General Appropriations Act. The following table shows contributions to the TRS-Care plan by type of contributor.

	Contribution Rates	
	2017	2018
Active employee	0.65%	0.65%
Non-Employer Contributing Entity (State)	1.00%	1.25%
Employers	0.55%	0.75%
Federal/Private Funding Remitted by Employers	1.00%	1.25%
Current fiscal year employer contributions		\$ 112,964
Current fiscal year member contributions		96,347
2017 measurement year NECE on-behalf contributions		134,338

In addition to the employer contributions listed above, there is an additional surcharge all TRS employers are subject to (*regardless of whether or not they participate in the TRS Care OPEB program*). When employers hire a TRS retiree, they are required to pay to TRS Care, a monthly surcharge of \$535 per retiree. TRS-Care received supplemental appropriations from the State of Texas as the Non-Employer Contributing Entity in the amount of \$15.6 million in fiscal year 2017 and \$182.6 million in fiscal year 2018.

Actuarial Assumptions. The total OPEB liability in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

The following assumptions and other inputs used for members of TRS-Care are identical to the assumptions used in the August 31, 2017 TRS pension actuarial valuation:

Rates of Mortality	General Inflation
Rates of Retirement	Wage Inflation
Rates of Termination	Expected Payroll Growth
Rates of Disability Incidence	

Additional Actuarial Methods and Assumptions

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age Normal
Inflation	2.50%
Discount Rate	3.42%
Aging Factors	Based on plan specific experience
Expenses	Third-party administrative expenses related to the delivery of health care benefits are included in the age-adjusted claims costs.
Payroll Growth Rate	2.50%
Projected Salary Increases	3.50% to 9.50%
Healthcare Trend Rates	4.50% to 12.00%
Election Rates	Normal Retirement: 70% participation prior to age 65 and 75% participation after age 65
Ad hoc post-employment benefit changes	None

Other Information. There was a significant plan change adopted in fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will be offered, and all retirees will be required to contribute monthly premiums for coverage. Assumption changes made for the August 31, 2017 valuation include a change to the assumption regarding the phase-out of the Medicare Part D subsidies and a change to the discount rate from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017.

Discount Rate. A single discount rate of 3.42% was used to measure the total OPEB liability. There was a change of .44 percent in the discount rate since the previous year. Because the plan is essentially a “pay-as-you-go” plan, the single discount rate is equal to the prevailing municipal bond rate. The projection of cash flows used to determine the discount rate assumed that contributions from active 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 OPEB plan’s fiduciary net position was projected to not be able to make all future benefit payments of current plan members. Therefore, the municipal bond rate was applied to all periods of projected benefit payments to determine the total OPEB liability. The source of the municipal bond rate was Fixed-income municipal bonds with 20 years to maturity that include only federally tax-exempt municipal bonds as reported in Fidelity Index’s “20-year Municipal GO AA Index” as of August 31, 2017.

Discount Rate Sensitivity Analysis. The following schedule shows the impact of the Net OPEB Liability if the discount rate used was 1% less than the discount rate that was used (3.42%) in measuring the Net OPEB Liability.

	1% Decrease in Discount Rate (2.42%)	Discount Rate (3.42%)	1% Increase in Discount Rate (4.42%)
Proportionate share of net OPEB liability	\$ 8,139,354	\$ 6,896,307	\$ 5,897,177

Healthcare Cost Trend Sensitivity Analysis. The following presents the net OPEB liability of the plan using the assumed healthcare cost trend rate, as well as what the net OPEB liability would be if it were calculated using a trend rate that is one-percentage point lower or one-percentage point higher than the assumed healthcare cost trend rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Proportionate share of net OPEB liability	\$ 5,741,865	\$ 6,896,307	\$ 8,411,081

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs. At June 30, 2018, the District reported a liability of \$6,896,307 for its proportionate share of the TRS's Net OPEB Liability. This liability reflects a reduction for State OPEB support provided to the District. The amount recognized by the District as its proportionate share of the net OPEB liability, the related State support, and the total portion of the net OPEB liability that was associated with the District were as follows:

District's proportionate share of the collective net OPEB liability	\$ 6,896,307
State's proportionate share that is associated with the District	<u>11,236,494</u>
Total	<u>\$ 18,132,801</u>

The Net OPEB Liability was measured as of August 31, 2017 and the Total OPEB Liability used to calculate the Net OPEB Liability was determined by an actuarial valuation as of that date. The employer's proportion of the Net OPEB Liability was based on the employer's contributions to the OPEB plan relative to the contributions of all employers to the plan for the period September 1, 2016 thru August 31, 2017.

At August 31, 2017 the employer's proportion of the collective Net OPEB Liability was 0.0158585926 which was the same proportion measured as of August 31, 2016.

Changes Since the Prior Actuarial Valuation. The following were changes to the actuarial assumptions or other inputs that affected measurement of the Total OPEB liability since the prior measurement period:

- Significant plan changes were adopted during fiscal year ending August 31, 2017. Effective January 1, 2018, only one health plan option will exist (instead of three), and all retirees will be required to contribute monthly premiums for coverage. The health plan changes triggered changes to several of the assumptions, including participation rates, retirement rates, and spousal participation rates.
- The August 31, 2016 valuation had assumed that the savings related to the Medicare Part-D reimbursements would phase out by 2022. This assumption was removed for the August 31, 2017 valuation. Although there is uncertainty regarding these federal subsidies, the new assumption better reflects the current substantive plan. This change was unrelated to the plan amendment, and its impact was included as an assumption change in the reconciliation of the total OPEB liability. This change significantly lowered the OPEB liability.
- The discount rate changed from 2.98% as of August 31, 2016 to 3.42% as of August 31, 2017. This change lowered the total OPEB liability.

In this valuation the impact of the Cadillac Tax has been calculated as a portion of the trend assumption. Assumptions and methods used to determine the impact of the Cadillac Tax include:

- 2018 thresholds of \$850/\$2,292 were indexed annually by 2.50 percent.
- Premium data submitted was not adjusted for permissible exclusions to the Cadillac Tax.
- There were no special adjustments to the dollar limit other than those permissible for non-Medicare retirees over 55.

Results indicate that the value of the excise tax would be reasonably represented by a 25-basis point addition to the long-term trend rate assumption.

Future actuarial measurements may differ significantly from the current measurements due to such factors as the following: plan experience differing from that anticipated by the economic or demographic assumptions; changes in economic or demographic assumptions; increases or decreases expected as part of the natural operation of the methodology used for these measurements; and changes in plan provisions or applicable law.

There were no changes of the benefit term that affected measurement of the Total OPEB liability during the measurement period.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(6,086,343) and revenue of \$(3,760,030) for support provided by the State.

At June 30, 2018, the District reported its proportionate share of the TRS’s deferred outflows of resources and deferred inflows of resources related to other post-employment benefits from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual actuarial experiences	\$ -	\$ 143,966
Changes in actuarial assumptions	-	2,740,773
Differences between projected and actual investment earnings	1,048	-
Changes in proportion and differences between the employer's contributions and the proportionate share of contributions	31	-
Contributions paid to OPEB subsequent to the measurement date	99,585	-
Total as of fiscal year-end	<u>\$ 100,664</u>	<u>\$ 2,884,739</u>

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

For the Year Ended June 30,	OPEB Expense
2019	\$(380,501)
2020	(380,501)
2021	(380,501)
2022	(380,501)
2023	(380,763)
Thereafter	(980,893)

L. 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 \$65,727, \$69,444, and \$54,080 were recognized for the years ended June 30, 2018, 2017, and 2016, respectively, as equal revenues and expenditures.

M. 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.

N. Shared Service Arrangments – Fiscal Agent

The District is the fiscal agent for a Shared Services Arrangement (“SSA”) which provides career and technical program services to the member districts below. All services are provided by the fiscal agent. The District has accounted for the activities of the SSA using Model 3 according to the Resource Guide. Expenditures for the fiscal year the District was the fiscal agent for the SSA are summarized below:

<u>Member District</u>	<u>Expenditures</u>
China Spring Independent School District	\$ 16,247
Lorena Independent School District	10,144
West Independent School District	<u>11,795</u>
	<u>\$ 38,186</u>

O. 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 2018, 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, 2018, 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, 2018, 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, 2017, are available on the TASB Risk Management Fund website and have been filed with the Texas Department of Insurance in Austin.

P. Prior Period Adjustment

During fiscal year 2018, the District adopted GASB statement No. 75 for Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. With GASB 75, the District must assume their proportionate share of the Net OPEB liability of the Teacher Retirement System of Texas. Adoption of GASB 75 required a prior period adjustment to report the effect of GASB 75 retroactively. The prior period adjustment totaled \$12,106,280 which resulted in a restated beginning net position balance of \$13,785,871.

Q. Negative Operating Grants and Contributions – Statement of Activities

Expense activity is required to be recorded by districts who are participants in cost-sharing pension and OPEB benefit plans with a special funding situation where non-employer contributing entities (NECE) also participate in contributions to the plans. TRS-retirement and TRS-care benefit plans are both cost-sharing plans with special funding situations. Therefore, on-behalf expense activity of the NECE must be recorded at the government-wide level of reporting on the Statement of Activities in accordance with GASB 68 and 75.

During the year under audit, the NECE expense was negative due to changes in benefits within the TRS-care plan. The accrual for the proportionate share of that expense was a negative on-behalf revenue and negative on-behalf expense. This resulted in negative revenue for operating grants and contributions on the Statement of Activities. According to guidance provided directly from GASB, this is the correct reporting.

Following are the effects on the Statement of Activities as a result of the negative on-behalf accruals recorded:

	Operating Grants and Contributions	Negative On-Behalf Accruals	Operating Grants and Contributions (excluding on- behalf accruals)
11 - Instruction	\$(1,334,241)	\$(2,604,342)	\$ 1,270,101
12 - Instructional resources and media services	(31,468)	(37,839)	6,371
13 - Curriculum and staff development	17,103	-	17,103
21 - Instructional leadership	(30,789)	(34,365)	3,576
23 - School leadership	(193,263)	(234,126)	40,863
31 - Guidance, counseling, and evaluation services	(6,933)	(159,599)	152,666
33 - Health services	(35,475)	(42,659)	7,184
34 - Student transportation	(81,462)	(97,959)	16,497
35 - Food service	410,039	(80,757)	490,796
36 - Extracurricular activities	(91,308)	(109,457)	18,149
41 - General administration	(94,499)	(113,637)	19,138
51 - Facilities maintenance and operations	(185,166)	(222,664)	37,498
52 - Security and monitoring services	(18,816)	(22,626)	3,810
72 - Interest on long-term debt	753,491	-	753,491
	<u>\$(922,787)</u>	<u>\$(3,760,030)</u>	<u>\$ 2,837,243</u>

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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, 2018

Data Control Codes		Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
		Original	Final		
REVENUES					
5700	Local and intermediate sources	\$ 8,353,345	\$ 8,658,845	\$ 8,734,842	\$ 75,997
5800	State programs	13,002,470	13,002,470	13,553,826	551,356
5900	Federal program	173,300	305,300	402,141	96,841
5020	Total revenues	<u>21,529,115</u>	<u>21,966,615</u>	<u>22,690,809</u>	<u>724,194</u>
EXPENDITURES					
Current:					
0011	Instruction	12,784,309	12,934,097	12,651,606	282,491
0012	Instructional resources and media sources	202,777	202,777	187,999	14,778
0013	Curriculum and staff development	79,065	78,315	53,478	24,837
0021	Instructional leadership	284,029	284,029	256,294	27,735
0023	School leadership	1,340,500	1,341,250	1,269,264	71,986
0031	Guidance, counseling, and evaluation services	829,377	860,577	851,824	8,753
0033	Health services	205,466	207,066	205,738	1,328
0034	Student transportation	732,523	1,629,713	1,519,980	109,733
0036	Extracurricular activities	966,502	1,006,541	965,281	41,260
0041	General administration	853,394	852,894	805,002	47,892
0051	Facilities maintenance and operations	2,735,715	2,825,715	2,713,692	112,023
0052	Security and monitoring services	139,014	148,214	146,418	1,796
0053	Data processing services	57,000	57,000	55,778	1,222
Debt service:					
0071	Principal on long-term debt	152,091	284,091	268,910	15,181
0072	Interest on long-term debt	14,853	14,853	29,884	(15,031)
0073	Bond issuance costs and fees	1,000	1,000	-	1,000
0081	Capital outlay	-	143,091	143,084	7
Intergovernmental:					
0099	Other governmental charges	151,500	151,500	144,383	7,117
6030	Total expenditures	<u>21,529,115</u>	<u>23,022,723</u>	<u>22,268,615</u>	<u>754,108</u>
1200	NET CHANGE IN FUND BALANCES	-	(1,056,108)	422,194	1,478,302
0100	FUND BALANCES, BEGINNING	<u>9,199,987</u>	<u>9,199,987</u>	<u>9,199,987</u>	-
3000	FUND BALANCES, ENDING	<u>\$ 9,199,987</u>	<u>\$ 8,143,879</u>	<u>\$ 9,622,181</u>	<u>\$ 1,478,302</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, 2018

Measurement period ended August 31,	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>
District's proportion of the net pension liability (asset)	0.0055406%	0.0106381%	0.0104610%	0.0114192%
District's proportionate share of the net pension liability (asset)	\$ 1,479,971	\$ 3,760,427	\$ 3,953,051	\$ 3,651,257
State's proportionate share of the net pension liability (asset) associated with the District	<u>6,980,672</u>	<u>8,191,666</u>	<u>8,607,503</u>	<u>14,822,569</u>
Total	<u>\$ 8,460,643</u>	<u>\$ 11,952,093</u>	<u>\$ 12,560,554</u>	<u>\$ 18,473,826</u>
District's covered-employee payroll	\$ 11,664,510	\$ 12,280,369	\$ 12,889,359	\$ 14,033,698
District's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	12.69%	30.62%	30.67%	26.02%
Plan fiduciary net position as a percentage of the total pension liability	83.25%	78.43%	78.00%	82.17%

Note: The information for all periods for this 10-year schedule are not be available.

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2018

Fiscal year ended June 30,	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
Contractually required contribution	\$ 297,483	\$ 330,314	\$ 364,995	\$ 400,528
Contributions in relation to the contractually required contribution	<u>(297,483)</u>	<u>(330,314)</u>	<u>(364,995)</u>	<u>(400,528)</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
District's covered-employee payroll	\$ 12,183,559	\$ 12,845,256	\$ 13,786,416	\$ 14,822,569
Contribution as a percentage of covered-employee payroll	2.44%	2.57%	2.65%	2.70%

Note: The information for all periods for this 10-year schedule is not available.

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE
OF THE NET OPEB LIABILITY
TEACHER RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2018

Measurement period ended August 31,	<u>2017</u>
District's proportion of the net OPEB liability (asset)	0.0158586%
District's proportionate share of the net OPEB liability (asset)	\$ 6,896,307
State's proportionate share of the net OPEB liability (asset) associated with the District	<u>11,236,494</u>
Total	<u>\$ 18,132,801</u>
District's covered-employee payroll	\$ 14,033,698
District's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	49.14%
Plan fiduciary net position as a percentage of the total OPEB liability	0.91%

Note: The information for all periods for this 10-year schedule are not be available.

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT OPEB CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM
FOR THE YEAR ENDED JUNE 30, 2018

Fiscal year ended June 30,	<u>2018</u>
Contractually required contribution	\$ 112,964
Contributions in relation to the contractually required contribution	(<u>112,964</u>)
Contribution deficiency (excess)	\$ <u><u>-</u></u>
District's covered-employee payroll	\$ 14,822,569
Contribution as a percentage of covered-employee payroll	0.76%

Note: The information for all periods for this 10-year schedule is not available.

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018

Budgetary Information

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

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

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

COMBINING STATEMENTS

CHINA SPRING INDEPENDENT SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2018

	Special Revenue Funds			
	211	224	225	240
	ESEA Title I, A Improving Basic Program	IDEA Part B Formula	IDEA Part B Preschool	National Breakfast and Lunch Program
ASSETS				
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ 106,916
Due from other governments	51,276	112,452	3,645	-
Receivables, net	-	-	-	16,911
Total assets	<u>51,276</u>	<u>112,452</u>	<u>3,645</u>	<u>123,827</u>
LIABILITIES				
Accounts payable	-	2,040	-	-
Accrued wages	17,744	52,290	-	48,934
Due to other funds	31,701	50,229	3,645	-
Accrued expenditures	1,831	7,893	-	7,841
Unearned revenue	-	-	-	22,454
Total liabilities	<u>51,276</u>	<u>112,452</u>	<u>3,645</u>	<u>79,229</u>
FUND BALANCES				
Restricted for food service	-	-	-	44,598
Committed - other	-	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>44,598</u>
Total liabilities and fund balances	\$ <u>51,276</u>	\$ <u>112,452</u>	\$ <u>3,645</u>	\$ <u>123,827</u>

Special Revenue Funds					
255	289	331	410	461	Total Nonmajor Governmental Funds
ESEA Title II, A Training and Recruiting	ESEA Title IV, A SSAE Program	SSA CATE Carl Perkins	State Textbook	Campus Activity	
\$ -	\$ -	\$ -	\$ -	\$ 238,364	\$ 345,280
6,276	-	22,318	18,758	-	214,725
-	-	-	-	-	16,911
<u>6,276</u>	<u>-</u>	<u>22,318</u>	<u>18,758</u>	<u>238,364</u>	<u>576,916</u>
-	-	660	-	24,025	26,725
-	-	-	4,368	-	123,336
6,276	-	21,658	13,993	-	127,502
-	-	-	397	-	17,962
-	-	-	-	-	22,454
<u>6,276</u>	<u>-</u>	<u>22,318</u>	<u>18,758</u>	<u>24,025</u>	<u>317,979</u>
-	-	-	-	-	44,598
-	-	-	-	214,339	214,339
-	-	-	-	214,339	258,937
<u>\$ 6,276</u>	<u>\$ -</u>	<u>\$ 22,318</u>	<u>\$ 18,758</u>	<u>\$ 238,364</u>	<u>\$ 576,916</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, 2018

	Special Revenue Funds			
	211	224	225	240
	ESEA Title I, A Improving Basic Program	IDEA Part B Formula	IDEA Part B Preschool	National Breakfast and Lunch Program
REVENUES				
Local and intermediate sources	\$ -	\$ -	\$ -	\$ 677,223
State programs	-	-	-	28,549
Federal programs	223,508	444,551	6,620	471,383
Total revenues	<u>223,508</u>	<u>444,551</u>	<u>6,620</u>	<u>1,177,155</u>
EXPENDITURES				
Current:				
Instruction	206,405	318,188	6,620	-
Curriculum and instructional staff development	17,103	-	-	-
Guidance, counseling, and evaluating services	-	126,363	-	-
Food services	-	-	-	1,160,668
Extracurricular activities	-	-	-	-
Total expenditures	<u>223,508</u>	<u>444,551</u>	<u>6,620</u>	<u>1,160,668</u>
NET CHANGE IN FUND BALANCES	-	-	-	16,487
FUND BALANCES, BEGINNING	<u>-</u>	<u>-</u>	<u>-</u>	<u>28,111</u>
FUND BALANCES, ENDING	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 44,598</u>

Special Revenue Funds					
255	289	331	410	461	
ESEA Title II, A Training and Recruiting	ESEA Title IV, A SSAE Program	SSA CATE Carl Perkins	State Textbook Fund	Campus Activity	Total Nonmajor Governmental
\$ -	\$ -	\$ -	\$ -	\$ 381,234	\$ 1,058,457
-	-	-	245,944	-	274,493
<u>43,717</u>	<u>9,796</u>	<u>38,186</u>	<u>-</u>	<u>-</u>	<u>1,237,761</u>
<u>43,717</u>	<u>9,796</u>	<u>38,186</u>	<u>245,944</u>	<u>381,234</u>	<u>2,570,711</u>
-	9,796	38,186	245,944	-	825,139
43,717	-	-	-	-	60,820
-	-	-	-	-	126,363
-	-	-	-	-	1,160,668
-	-	-	-	424,088	424,088
<u>43,717</u>	<u>9,796</u>	<u>38,186</u>	<u>245,944</u>	<u>424,088</u>	<u>2,597,078</u>
-	-	-	-	(42,854)	(26,367)
-	-	-	-	257,193	285,304
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 214,339</u>	<u>\$ 258,937</u>

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REQUIRED TEA SCHEDULES

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FOR THE YEAR ENDED JUNE 30, 2018

Last Ten Years Ended June 30,	1	2	3	10	20
	Tax Rates		Net Assessed/ Appraised Value for School Tax Purpose	Beginning Balance 07/01/17	Current Year's Total Levy
	Maintenance	Debt Service			
2009 and prior years	various	various	various	\$ 68,313	\$ -
2010	1.040000	0.397240	527,948,499	14,197	-
2011	1.040000	0.367000	553,420,185	19,108	-
2012	1.040000	0.371400	571,453,592	24,085	-
2013	1.040000	0.334402	599,892,390	26,313	-
2014	1.040000	0.500000	624,769,481	29,399	-
2015	1.040000	0.498834	641,169,223	32,568	-
2016	1.040000	0.476070	656,528,590	50,922	-
2017	1.040000	0.381381	725,827,910	207,751	-
2018 (School year under audit)	1.040000	0.347194	797,050,881	-	<u>11,056,642</u>
1000 Totals				<u>\$ 472,656</u>	<u>\$ 11,056,642</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 06/30/18</u>
\$ 164	\$ 61	\$(4,941)	\$ 63,147
255	97	-	13,845
1,400	494	-	17,214
1,412	504	-	22,169
5,238	1,684	578	19,969
5,517	2,653	2,491	23,720
7,440	3,569	3,128	24,687
14,562	6,666	3,598	33,292
88,683	32,521	(29,594)	56,953
<u>8,220,922</u>	<u>2,744,476</u>	<u>127,764</u>	<u>219,008</u>
<u>\$ 8,345,593</u>	<u>\$ 2,792,725</u>	<u>\$ 103,024</u>	<u>\$ 494,004</u>

**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, 2018**

		Budgeted Amounts		Actual	Variance with
		Original	Final	Amounts	Final Budget
					Positive
					(Negative)
REVENUES					
5700	Local and intermediate sources	\$ 605,977	\$ 673,977	\$ 677,223	\$ 3,246
5800	State programs	28,311	28,311	28,549	238
5900	Federal programs	<u>440,000</u>	<u>470,000</u>	<u>471,383</u>	<u>1,383</u>
5020	Total revenues	<u>1,074,288</u>	<u>1,172,288</u>	<u>1,177,155</u>	<u>4,867</u>
EXPENDITURES					
Current:					
0035	Food service	<u>1,074,288</u>	<u>1,172,288</u>	<u>1,160,668</u>	<u>11,620</u>
6030	Total expenditures	<u>1,074,288</u>	<u>1,172,288</u>	<u>1,160,668</u>	<u>11,620</u>
1200	NET CHANGE IN FUND BALANCES	-	-	16,487	16,487
0100	FUND BALANCES, BEGINNING	<u>28,111</u>	<u>28,111</u>	<u>28,111</u>	-
3000	FUND BALANCES, ENDING	<u>\$ 28,111</u>	<u>\$ 28,111</u>	<u>\$ 44,598</u>	<u>\$ 16,487</u>

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, 2018

		Budgeted Amounts		Actual	Variance with
		Original	Final	Amounts	Final Budget
				Positive	
				(Negative)	
REVENUES					
5700	Local and intermediate sources	\$ 2,714,824	\$ 2,714,824	\$ 2,862,921	\$ 148,097
5800	State programs	<u>636,481</u>	<u>636,481</u>	<u>753,491</u>	<u>117,010</u>
5020	Total revenues	<u>3,351,305</u>	<u>3,351,305</u>	<u>3,616,412</u>	<u>265,107</u>
EXPENDITURES					
Debt service:					
0071	Principal on long-term debt	1,265,000	1,265,000	1,265,000	-
0072	Interest on long-term debt	1,526,333	1,526,333	1,526,333	-
0073	Bond issuance costs and fees	<u>5,000</u>	<u>5,000</u>	<u>3,898</u>	<u>1,102</u>
6030	Total expenditures	<u>2,796,333</u>	<u>2,796,333</u>	<u>2,795,231</u>	<u>1,102</u>
1200	NET CHANGE IN FUND BALANCES	<u>554,972</u>	<u>554,972</u>	<u>821,181</u>	<u>266,209</u>
0100	FUND BALANCES, BEGINNING	<u>3,438,235</u>	<u>3,438,235</u>	<u>3,438,235</u>	<u>-</u>
3000	FUND BALANCES, ENDING	<u>\$ 3,993,207</u>	<u>\$ 3,993,207</u>	<u>\$ 4,259,416</u>	<u>\$ 266,209</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, 2018, 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 October 12, 2018.

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 over financial reporting 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
October 12, 2018



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

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

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

Report on Compliance for Each Major Federal Program

We have audited China Spring Independent School District's compliance with the types of compliance requirements described in the *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, 2018. China Spring Independent School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

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

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

Opinion on Each Major Federal Program

In our opinion, China Spring Independent School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

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 to determine the auditing procedures that are appropriate in the in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of China Spring Independent School District's internal control over compliance.

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

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

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

Waco, Texas
October 12, 2018

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

(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 (SBP)	10.553	714018	\$ 82,466
National School Lunch Program (NSLP)	10.555	713018	<u>318,563</u>
Total Passed through the Texas Education Agency			<u>401,029</u>
<u>Passed through the Texas Department of Agriculture</u>			
National School Lunch Program			
NSLP - Commodities - Noncash Assistance	10.555	161007A	<u>70,354</u>
Total Passed through the Texas Department of Agriculture			<u>70,354</u>
Total Child Nutrition Cluster			<u>471,383</u>
TOTAL U. S. DEPARTMENT OF AGRICULTURE			<u>471,383</u>
U. S. DEPARTMENT OF EDUCATION			
<u>Passed through the Texas Education Agency</u>			
Title I, Part A - Grants to Local Educational Agencies	84.010	17610101161920	28,352
Title I, Part A - Grants to Local Educational Agencies	84.010	18610101161920	<u>195,155</u>
Total Title I, Part A			<u>223,507</u>
IDEA B Formula - Special Education Grants to States	84.027	186600011619206000	444,551
IDEA Preschool - Special Education Preschool Grants	84.173	186610011619206000	<u>6,620</u>
Total IDEA Cluster			<u>451,171</u>
Perkins IV - Career and Technical Education	84.048A	184200006161920	38,186
Title II, Part A - Supporting Effective Instruction State Grants	84.367A	17694501161920	1,450
Title II, Part A - Supporting Effective Instruction State Grants	84.367A	18694501161920	<u>42,268</u>
Total Title II, Part A			<u>43,718</u>
Title IV, Part A, Subpart 1	84.424A	18680101161920	<u>9,796</u>
Total Passed through the Texas Education Agency			<u>766,378</u>
TOTAL U. S. DEPARTMENT OF EDUCATION			<u>766,378</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 1,237,761</u>

**CHINA SPRING INDEPENDENT SCHOOL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
JUNE 30, 2018**

1. GENERAL

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

2. BASIS OF ACCOUNTING

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

3. PASS-THROUGH EXPENDITURES

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

4. INDIRECT COSTS

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

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

Federal revenues per the Statement of Revenues,	
Expenditures and Changes in Fund Balance -	
Governmental Funds (Exhibit C-3)	\$ 1,639,902
School health and related services revenue	<u>(402,141)</u>
Federal expenditures per the Schedule of	
Expenditures of Federal Awards	
(Exhibit K-1)	<u>\$ 1,237,761</u>

**CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Summary of Auditors' Results

Financial Statements

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

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	No
Significant deficiency(ies) identified, that were not considered a material weakness?	None reported
Type of auditors' report on compliance for major programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No
Identification of major programs:	
CFDA Numbers: 10.553 and 10.555	Name of Federal Program or Cluster: Child Nutrition Cluster
Dollar threshold used to distinguish between Type A and Type B programs	\$750,000
Auditee qualified as low-risk auditee?	Yes

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

None

Findings and Questioned Costs for Federal Awards

None

CHINA SPRING INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018

None.