

SANTA MARIA INDEPENDENT SCHOOL DISTRICT



**Annual Financial Report
For the fiscal year ended
August 31, 2017**

Raul Hernandez & Company, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

5402 Holly Rd. Suite 102 Corpus Christi, TX 78411 Office: (361) 980-0428 Fax: (361) 980-1002

Signed



**SANTA MARIA INDEPENDENT SCHOOL
DISTRICT**

**ANNUAL FINANCIAL REPORT FOR THE
YEAR ENDED**

AUGUST 31, 2017



SANTA MARIA INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2017

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CERTIFICATE OF BOARD

Santa Maria Independent School District
Name of School District

Cameron
County

031913
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 August 31, 2017 at a meeting of the Board of Trustees of such school district on the 24th of January 24, 2018.



Signature of Board Secretary



Signature of Board President

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

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Raul Hernandez & Company, P.C.

Certified Public Accountants
5402 Holly Rd, Suite 102
Corpus Christi, Texas 78411
Office (361)980-0482 Fax (361)980-1002

INDEPENDENT AUDITORS' REPORT

Santa Maria Independent School District
P.O. Box 448
Santa Maria, Texas 78592

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 Santa Maria Independent School District, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the Santa Maria 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 the Santa Maria Independent School District, as of August 31, 2017, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Santa Maria Independent School District's basic financial statements. The combining and individual nonmajor fund financial statements, and schedule of expenditures of federal awards *as required by Title 2 U.S. Code of Federal Regulations Part 200*, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements 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 and individual nonmajor fund financial statements 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 January 24, 2018, on our consideration of the Santa Maria Independent School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Santa Maria Independent School District's internal control over financial reporting and compliance.

Raul Hernandez & Company, P.C.

Corpus Christi, Texas
January 24, 2018

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MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Santa Maria Independent School District, discuss and analyze the District's financial performance for the fiscal year ended August 31, 2017. Please read it in conjunction with the independent auditors' report on page 1, and the District's Basic Financial Statements, which begin on page 14.

FINANCIAL HIGHLIGHTS

- The District's total combined net positions were \$6,892,514 and \$7,458,785, for fiscal years ending August 31, 2017 and 2016, respectively.
- The District's expenses were \$10,440,533, which is (\$1,292,692) less than the 2016 amount of \$11,733,225.
- The General Fund reported a fund balance of \$2,181,190 and \$2,701,950 for fiscal years ending August 31, 2017 and 2016, respectively.
- The Debt Service Fund ended the year with a fund balance of (\$37,464), which represents a decrease of (\$81,929) from the prior year.
- Revenues from governmental activities were \$10,235,484 which represents a (\$764,580) decrease from the prior year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the District's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short term* as well as what remains for future spending.
- *Proprietary fund* statements offer *short- and long-term* financial information about the activities the government operates *like businesses*.
- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.
- *Notes to the financial statements*. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.
- *Other information*. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the district's progress in funding its obligation to provide pension benefits to its employees. Immediately following the required supplementary information on pensions are the two budgetary schedules on the general fund and major special revenue fund. The combining statements in connection to nonmajor governmental funds and fiduciary funds are then presented.

The financial statements also include notes that explain some of the information in the financial statements and provide data that are more detailed. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements.

Figure A-1 summarizes the major features of the District's financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-1 Major Features of the District's Government-wide and Fund Financial Statements

<u>Type of Statements</u>	<u>Government-wide</u>	<u>Governmental Funds</u>	<u>Proprietary Funds</u>	<u>Fiduciary Funds</u>
<u>Scope</u>	Entire district Government (except Fiduciary funds) and the district's component units	The activities of the district that are not proprietary or fiduciary	Activities of District similar to private business; self insurance	Instances in which the district is the trustee or agent for someone else's resources
<u>Required Financial net position Statements</u>	<i>Statement of Net position</i> <i>Statement of Activities</i>	<i>Balance Sheet</i> <i>Statement of revenues, expenditures & changes in fund balances</i> <i>Statement of cash flows</i>	<i>Statement of net position</i> <i>Statement of rev, exp, & changes in net position</i> <i>Statement of flows</i>	<i>Statement of fiduciary</i> <i>Statement of in fiduciary net position</i>
<u>Accounting basis and measurement focus</u>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial	Accrual accounting and economic focus	Accrual accounting economic resources focus

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 14 and 15). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 16) report the District's operations in more detail than the government-wide statements by providing information about the District's most significant funds. For governmental activities, these statements tell how services were financed in the short term as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the District were

sold to departments within the District or to external customers and how the sales revenues covered the expenses of the goods or services. The remaining statements, fiduciary statements, provide financial information about activities for which the District acts solely as a trustee or agent for the benefit of those outside of the district.

The notes to the financial statements (starting on page 21) provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements.

The combining statements for nonmajor funds contain even more information about the District's individual funds. These are not required by TEA. The section labeled Other Schedules 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 14. Its primary purpose is to show whether the District is better off or worse off as a result of the year's activities. The Statement of Net Position includes all the District's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the District's operations during the year. These apply the accrual basis of accounting which is the basis used by private sector companies.

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

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

In the Statement of Net Position and the Statement of Activities, we present the District's one kind of activity:

- Governmental activities—Most of the District's basic services are reported here, including the 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 16 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities). The District's governmental funds use the following accounting approach:

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

The District as Trustee

Reporting the District's Fiduciary Responsibilities

- The District is the trustee, or fiduciary, for money raised by student activities and alumnae scholarship programs. All of the District's fiduciary activities are reported in separate Statements of Fiduciary Net Position on page 20. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The District implemented GASB Statement #34 in a prior year. Our analysis focuses on the net position (Table I) and changes in net position (Table II) of the District's governmental-type activities between current and prior year.

Net position of the District's governmental activities decreased from \$7,458,785 to \$6,892,514. 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 (\$2,450,876) at August 31, 2017 which represents a (\$3,079,747) decrease from prior year. The District's expenditures exceeded the revenues by \$(205,049). The District paid bonds and other long-term debt in the amount of \$542,888. Furthermore, acquired capital assets, including completed capital projects, amounted to a net after disposals, before depreciation, of \$368,208. The District recorded depreciation in the amount of \$416,210. In addition, accumulated depreciation was \$6,243,602 as of August 31, 2017. (See note D on page 32)

Total Revenue decreased by (\$764,580) in fiscal 2017. Grants and Contributions accounted for a majority of the decrease. Total Expenditures decreased by (\$1,292,692) during the year. 52% of these costs are for instruction.

The District has no business-type activities.

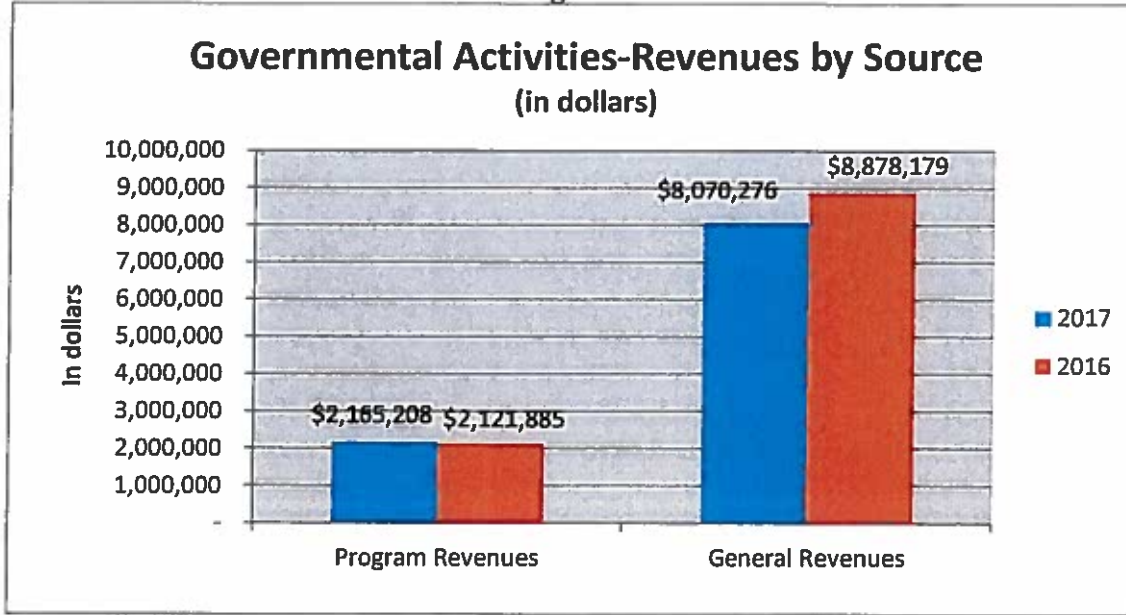
Table I
SANTA MARIA INDEPENDENT
SCHOOL DISTRICT

ASSETS	Governmental Activities		
	2017	2016	Change
Cash and Cash Equivalents	\$ 1,134,576	\$ 1,109,671	\$ 24,905
Current Investments	10,155,811	7,806,983	2,348,828
Property Taxes Receivable (Delinquent)	127,102	116,732	10,370
Allowance for Uncollectible Taxes	(19,065)	(17,510)	(1,555)
Due from Other Governments	723,675	683,521	40,154
Other Receivables, net	292,008	223,942	68,066
Inventories	3,080	5,396	(2,316)
Prepayments	7,727	22,570	(14,843)
Total Current Assets:	<u>12,424,914</u>	<u>9,951,305</u>	<u>2,473,609</u>
Capital Assets:			
Land	247,824	247,824	-
Buildings, Net	8,281,356	8,621,063	(339,707)
Furniture and Equipment, Net	490,410	518,372	(27,962)
Construction in Progress	1,162,635	842,967	319,668
Total Noncurrent Assets	<u>10,182,225</u>	<u>10,230,226</u>	<u>(48,001)</u>
Total Assets	<u>22,607,139</u>	<u>20,181,531</u>	<u>2,425,608</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Outflow Related to TRS	1,217,654	1,046,354	171,300
Total Deferred Outflows of Resources	<u>1,217,654</u>	<u>1,046,354</u>	<u>171,300</u>
LIABILITIES			
Accounts Payable	167,489	291,564	(124,075)
Interest Payable	19,037	175,199	(156,162)
Accrued Wages Payable	129,039	51,522	77,517
Due to Fiduciary Funds	906	-	906
Due to Other Governments	532,327	9,013	523,314
Noncurrent Liabilities			
Due Within One Year	501,188	457,791	43,397
Due in More Than One Year	12,811,906	10,474,501	2,337,405
Net Pension Liability (District's Share)	2,619,379	2,146,194	473,185
Total Liabilities	<u>16,781,271</u>	<u>13,605,784</u>	<u>3,175,487</u>
DEFERRED INFLOW OF RESOURCES			
Deferred Inflow Related to TRS	151,007	159,718	(8,711)
Total Deferred Inflows of Resources	<u>151,007</u>	<u>159,718</u>	<u>(8,711)</u>
NET POSITION			
Net Investment in Capital Assets	-	35,475	(35,475)
Restricted for Federal and State Programs	82,584	54,668	27,916
Restricted for Debt Service	-	44,464	(44,464)
Restricted for Capital Projects	9,260,806	6,695,307	2,565,499
Unrestricted	<u>(2,450,876)</u>	<u>628,871</u>	<u>(3,079,747)</u>
Total Net Position	<u>6,892,514</u>	<u>7,458,785</u>	<u>(566,271)</u>

Table II
SANTA MARIA INDEPENDENT SCHOOL DISTRICT
CHANGES IN POSITION

	Governmental Activities 2017	Governmental Activities 2016	Change
Revenues:			
Program Revenues:			
Charges for Services	\$ 68,522	\$ 64,693	\$ 3,829
Operating Grants and Contributions	2,096,686	2,057,192	39,494
General Revenues:			
Property Taxes	629,980	563,424	66,556
Grants and Contributions not Restricted	7,340,781	8,304,481	(963,700)
Investment Earnings	98,516	9,272	89,244
Miscellaneous Revenue	999	1,002	(3)
Total Revenue	<u>10,235,484</u>	<u>11,000,064</u>	<u>(764,580)</u>
Expenses:			
Instruction	5,419,295	6,083,378	(664,083)
Instructional Resources and Media Services	19,586	113,610	(94,024)
Curriculum and Instructional Staff Development	39,191	28,401	10,790
Instructional Leadership	3,464	3,373	91
School Leadership	586,377	644,953	(58,576)
Guidance, Counseling, and Evaluation Services	244,877	217,498	27,379
Social Work Services	90,828	83,009	7,819
Health Services	83,997	72,678	11,319
Student (Pupil) Transportation	285,389	235,960	49,429
Food Services	818,398	771,429	46,969
Extracurricular Activities	263,101	285,601	(22,500)
General Administration	909,338	983,106	(73,768)
Facilities Maintenance and Operations	1,003,623	1,101,023	(97,400)
Security and Monitoring Services	87,725	112,307	(24,582)
Data Processing Services	157,307	285,060	(127,753)
Community Services	54,104	54,216	(112)
Debt Service - Interest on Long Term Debt	231,843	253,011	(21,168)
Debt Service - Bond Issuance Costs and Fees	47,298	392,872	(345,574)
Incremental Costs related to WADA	78,318	-	78,318
Other Intergovernmental Charges	16,474	11,740	4,734
Total Expenses	<u>10,440,533</u>	<u>11,733,225</u>	<u>(1,292,692)</u>
Change in Net Position	(205,049)	(733,161)	528,112
Net Position - Beginning of Year	7,458,785	8,191,946	(733,161)
Prior Period Adjustment	(361,222)	-	(361,222)
Net Position - End of Year	<u>\$ 6,892,514</u>	<u>\$ 7,458,785</u>	<u>\$ (566,271)</u>

Figure 1

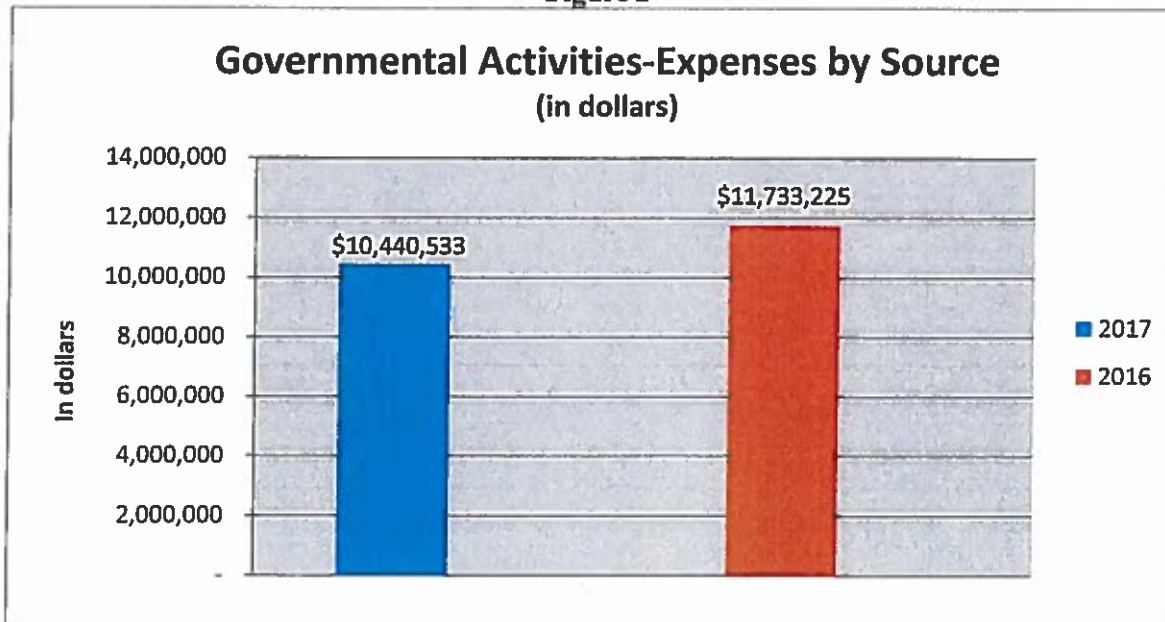


Governmental Activities

- Investment earnings increased due to the increase in investments.
- State funds received for the District operations increased due to an increase in student population and property values.

Operating grants represent federal & state funds restricted for a specific program. Operating grants increased due to increased participation.

Figure 2



As the District completed the year, its governmental funds (as presented in the balance sheet on page 16) reported a combined fund balance of \$11,487,116, which represents a net increase of \$1,990,725 over last year's total of \$9,496,391.

The District's General Fund balance of \$2,181,190 reported on page 46 differs from the General Fund's budgetary fund balance of \$2,701,950 reported in the budgetary comparison schedule, which is a difference of (\$520,760).

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the District had \$16.4 million invested in a broad range of capital assets, including land, construction in progress, buildings, vehicles, and furniture & equipment.

This year's major additions included:

	2017	2016
Land	\$ 247,824	\$ 247,824
Construction in Progress	1,162,634	842,967
Buildings & Improvements	13,562,912	13,552,462
Furniture and Equipment	507,992	469,901
Vehicles	944,465	944,464
Totals at Historical Cost	16,425,827	16,057,618
Accumulated Depreciation	(6,243,602)	(5,827,393)
Total Capital Assets (Net)	\$ 10,182,225	\$ 10,230,225

More detailed information about the District's capital assets is presented in Note D (page 32) to the financial statements.

Debt

At year-end, the District had \$13,313,094 in bonds and other long-term debt outstanding, which is a net increase from the prior year by \$2,380,802.

More detailed information about the District's long-term liabilities is presented in Note G (page 34) to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected and appointed officials considered many factors when setting the fiscal year 2017-2018 budget tax rates. One of those factors is the economy. The District's population has remained constant.

The adopted budget for 2017-2018 is \$8,762,534 which is up \$369,548. The tax rate for the year 2017-2018 totaled 1.48. The appraised value for 2017-2018 budget was \$74,696,637 up approximately \$10 million. General operating state estimated revenue per student increased from \$10,878 to \$11,581 and general operating appropriation per student increased from \$911 to \$1,183 in the 2017-2018 budget. The 2017-2018 refined average daily attendance is expected to be 636, which is down from the prior year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's business office, at Santa Maria Independent School District (956) 565-6308.

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BASIC FINANCIAL STATEMENTS

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SANTA MARIA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF NET POSITION
AUGUST 31, 2017

EXHIBIT A-1

Data Control Codes	Primary Government
	Governmental Activities
ASSETS	
1110 Cash and Cash Equivalents	\$ 1,134,576
1120 Current Investments	10,155,811
1220 Property Taxes Receivable (Delinquent)	127,102
1230 Allowance for Uncollectible Taxes	(19,065)
1240 Due from Other Governments	723,675
1290 Other Receivables, net	292,008
1300 Inventories	3,080
1410 Prepayments	7,727
Capital Assets:	
1510 Land	247,824
1520 Buildings, Net	8,281,356
1530 Furniture and Equipment, Net	490,410
1580 Construction in Progress	1,162,635
1000 Total Assets	22,607,138
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS	1,217,654
1700 Total Deferred Outflows of Resources	1,217,654
LIABILITIES	
2110 Accounts Payable	167,489
2140 Interest Payable	19,037
2160 Accrued Wages Payable	129,039
2177 Due to Fiduciary Funds	906
2180 Due to Other Governments	532,327
Noncurrent Liabilities	
2501 Due Within One Year	501,188
2502 Due in More Than One Year	12,811,906
2540 Net Pension Liability (District's Share)	2,619,379
2000 Total Liabilities	16,781,271
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	151,007
2600 Total Deferred Inflows of Resources	151,007
NET POSITION	
3820 Restricted for Federal and State Programs	82,584
3860 Restricted for Capital Projects	9,260,806
3900 Unrestricted	(2,450,876)
3000 Total Net Position	\$ 6,892,514

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

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED AUGUST 31, 2017

EXHIBIT B-1

Data Control Codes	1	Program Revenues		6
		3	4	Primary Gov. Governmental Activities
	Expenses	Charges for Services	Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Position
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 5,419,295	\$ 47,474	\$ 1,054,065	\$ (4,317,756)
12 Instructional Resources and Media Services	19,586	-	9,401	(10,185)
13 Curriculum and Staff Development	39,191	-	3,175	(36,016)
21 Instructional Leadership	3,464	-	-	(3,464)
23 School Leadership	586,377	-	23,322	(563,055)
31 Guidance, Counseling and Evaluation Services	244,877	-	187,730	(57,147)
32 Social Work Services	90,828	-	43,505	(47,323)
33 Health Services	83,997	-	4,213	(79,784)
34 Student (Pupil) Transportation	285,389	-	11,368	(274,021)
35 Food Services	818,398	6,411	636,079	(175,908)
36 Extracurricular Activities	263,101	14,637	5,520	(242,944)
41 General Administration	909,338	-	27,934	(881,404)
51 Facilities Maintenance and Operations	1,003,623	-	28,739	(974,884)
52 Security and Monitoring Services	87,725	-	4,836	(82,889)
53 Data Processing Services	157,307	-	8,418	(148,889)
61 Community Services	54,104	-	48,381	(5,723)
72 Debt Service - Interest on Long Term Debt	231,843	-	-	(231,843)
73 Debt Service - Bond Issuance Cost and Fees	47,298	-	-	(47,298)
93 Payments related to Shared Services Arrangements	78,318	-	-	(78,318)
99 Other Intergovernmental Charges	16,475	-	-	(16,475)
[TP] TOTAL PRIMARY GOVERNMENT:	\$ 10,440,534	\$ 68,522	\$ 2,096,686	(8,275,326)

Data Control Codes	General Revenues:		
	Taxes:		
MT	Property Taxes, Levied for General Purposes		477,261
DT	Property Taxes, Levied for Debt Service		152,719
GC	Grants and Contributions not Restricted		7,340,781
IE	Investment Earnings		98,516
MI	Miscellaneous Local and Intermediate Revenue		999
TR	Total General Revenues		8,070,277
CN	Change in Net Position		(205,049)
NB	Net Position - Beginning		7,458,785
PA	Prior Period Adjustment		(361,222)
NE	Net Position--Ending		\$ 6,892,514

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

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
AUGUST 31, 2017

Data Control Codes	10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
ASSETS				
1110 Cash and Cash Equivalents	\$ 1,012,209	\$ 40,311	\$ 82,056	\$ 1,134,576
1120 Investments - Current	1,014,912	9,140,899	-	10,155,811
1220 Property Taxes - Delinquent	106,628	-	20,474	127,102
1230 Allowance for Uncollectible Taxes (Credit)	(15,994)	-	(3,071)	(19,065)
1240 Receivables from Other Governments	530,815	-	192,860	723,675
1260 Due from Other Funds	1,000	80,596	-	81,596
1290 Other Receivables	250,078	-	41,930	292,008
1300 Inventories	3,080	-	-	3,080
1410 Prepayments	-	-	7,727	7,727
1000 Total Assets	<u>\$ 2,902,728</u>	<u>\$ 9,261,806</u>	<u>\$ 341,976</u>	<u>\$ 12,506,510</u>
LIABILITIES				
2110 Accounts Payable	\$ 11,833	\$ -	\$ 155,655	\$ 167,488
2160 Accrued Wages Payable	118,903	-	10,136	129,039
2170 Due to Other Funds	906	1,000	80,596	82,502
2180 Due to Other Governments	499,262	-	33,066	532,328
2000 Total Liabilities	<u>630,904</u>	<u>1,000</u>	<u>279,453</u>	<u>911,357</u>
DEFERRED INFLOWS OF RESOURCES				
2601 Unavailable Revenue - Property Taxes	90,634	-	17,403	108,037
2600 Total Deferred Inflows of Resources	<u>90,634</u>	<u>-</u>	<u>17,403</u>	<u>108,037</u>
FUND BALANCES				
Nonspendable Fund Balance:				
3410 Inventories	3,080	-	-	3,080
Restricted Fund Balance:				
3480 Retirement of Long-Term Debt	-	-	82,584	82,584
Committed Fund Balance:				
3510 Construction	-	9,260,806	-	9,260,806
3600 Unassigned Fund Balance	2,178,110	-	(37,464)	2,140,646
3000 Total Fund Balances	<u>2,181,190</u>	<u>9,260,806</u>	<u>45,120</u>	<u>11,487,116</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 2,902,728</u>	<u>\$ 9,261,806</u>	<u>\$ 341,976</u>	<u>\$ 12,506,510</u>

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

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

Total Fund Balances - Governmental Funds	\$	11,487,116
1 The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. The net effect of this consolidation is to increase net position.		-
2 Capital assets used in governmental activities are not financial resources and therefore are not reported in governmental funds. At the beginning of the year, the cost of these assets was \$16,057,620 and the accumulated depreciation was (\$5,827,393). In addition, long-term liabilities, including bonds payable, are not due and payable in the current period, and, therefore are not reported as liabilities in the funds. The net effect of including the beginning balances for capital assets (net of depreciation) and long-term debt in the governmental activities is to decrease net position.		(2,136,824)
3 Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of including the 2016 capital outlays and debt principal payments is to decrease net position.		(2,149,605)
4 Included in the items related to debt is the recognition of the District's proportionate share of the net pension liability required by GASB 68 in the amount of 2,619,379, a Deferred Resource Inflow related to TRS in the amount of \$151,007 and a Deferred Resource Outflow related to TRS in the amount of \$1,217,654. This amounted to a decrease in Net Position in the amount of \$1,552,732.		(1,552,732)
5 The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.		(416,210)
6 Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, reclassifying the proceeds of bond sales as an increase in bonds payable, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to increase net position.		1,660,769
19 Net Position of Governmental Activities	\$	6,892,514

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

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

Data Control Codes		10 General Fund	60 Capital Projects	Other Funds	Total Governmental Funds
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 714,109	\$ 81,721	\$ 153,085	\$ 948,915
5800	State Program Revenues	7,102,299	-	377,030	7,479,329
5900	Federal Program Revenues	751,959	-	1,123,309	1,875,268
5020	Total Revenues	8,568,367	81,721	1,653,424	10,303,512
EXPENDITURES:					
Current:					
0011	Instruction	4,300,988	-	828,061	5,129,049
0012	Instructional Resources and Media Services	7,714	-	9,038	16,752
0013	Curriculum and Instructional Staff Development	28,711	-	2,388	31,099
0023	School Leadership	539,659	-	438	540,097
0031	Guidance, Counseling and Evaluation Services	21,053	-	187,696	208,749
0032	Social Work Services	44,250	-	40,766	85,016
0033	Health Services	75,752	-	-	75,752
0034	Student (Pupil) Transportation	267,972	-	-	267,972
0035	Food Services	753,614	-	22,936	776,550
0036	Extracurricular Activities	244,923	-	-	244,923
0041	General Administration	842,567	-	-	842,567
0051	Facilities Maintenance and Operations	974,805	-	-	974,805
0052	Security and Monitoring Services	84,665	-	-	84,665
0053	Data Processing Services	145,777	-	-	145,777
0061	Community Services	-	-	48,381	48,381
Debt Service:					
0071	Principal on Long Term Debt	302,212	95,315	94,153	491,680
0072	Interest on Long Term Debt	-	14,480	424,733	439,213
0073	Bond Issuance Cost and Fees	-	-	47,298	47,298
Capital Outlay:					
0081	Facilities Acquisition and Construction	-	330,118	-	330,118
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	78,318	-	-	78,318
0099	Other Intergovernmental Charges	14,925	-	1,550	16,475
6030	Total Expenditures	8,727,905	439,913	1,707,438	10,875,256
1100	Excess (Deficiency) of Revenues Over (Under) Expenditures	(159,538)	(358,192)	(54,014)	(571,744)
OTHER FINANCING SOURCES (USES):					
7911	Capital Related Debt Issued (Regular Bonds)	-	2,795,000	-	2,795,000
7916	Premium or Discount on Issuance of Bonds	-	128,691	-	128,691
7080	Total Other Financing Sources (Uses)	-	2,923,691	-	2,923,691
1200	Net Change in Fund Balances	(159,538)	2,565,499	(54,014)	2,351,947
0100	Fund Balance - September 1 (Beginning)	2,701,950	6,695,307	99,134	9,496,391
1300	Increase (Decrease) in Fund Balance	(361,222)	-	-	(361,222)
3000	Fund Balance - August 31 (Ending)	\$ 2,181,190	\$ 9,260,806	\$ 45,120	\$ 11,487,116

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

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED AUGUST 31, 2017

Total Net Change in Fund Balances - Governmental Funds	\$	2,351,947
The District uses internal service funds to charge the costs of certain activities, such as self-insurance and printing, to appropriate functions in other funds. The net income (loss) of internal service funds are reported with governmental activities. The net effect of this consolidation is to increase net position.		-
Current year capital outlays and long-term debt principal payments are expenditures in the fund financial statements, but they should be shown as increases in capital assets and reductions in long-term debt in the government-wide financial statements. The net effect of removing the 2017 capital outlays and debt principal payments is to decrease net position.		859,888
Depreciation is not recognized as an expense in governmental funds since it does not require the use of current financial resources. The net effect of the current year's depreciation is to decrease net position.		(416,210)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing unavailable revenue from property taxes as revenue, adjusting current year revenue to show the revenue earned from the current year's tax levy, reclassifying the proceeds of bond sales, and recognizing the liabilities associated with maturing long-term debt and interest. The net effect of these reclassifications and recognitions is to decrease net position.		(2,879,922)
The implementation of GASB 68 required that certain expenditures be de-expended and recorded as deferred resource outflows. These contributions made after the measurement date of 8/31/2016 caused the change in the ending net position to increase in the amount of \$174,535. Contributions made before the measurement but during the 2016 FY were also dexpended and recorded as a reduction in the net pension liability for the district. This caused a decrease in the change in net position in the amount of \$218,675. The District recorded their proportionate share of the pension expense during the measurement period as part of the net pension liability. The net pension expense decreased the change in net position by \$249,034. The net result is a decrease in the change in net position.		(120,752)
Change in Net Position of Governmental Activities	\$	(205,049)

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

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AUGUST 31, 2017

	Agency Funds
<hr/>	
ASSETS	
Due from Other Funds	\$ 906
Total Assets	<u>\$ 906</u>
LIABILITIES	
Due to Student Groups	\$ 906
Total Liabilities	<u>\$ 906</u>

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

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NOTES TO THE FINANCIAL STATEMENTS

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements
For The Year Ended August 31, 2017

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of Santa Maria Independent School District (the "District") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") applicable to governmental units in conjunction with the Texas Education Agency's Financial Accountability System Resource Guide ("Resource Guide"). The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

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 position liability, deferred outflows 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.

1. REPORTING ENTITY

The Board of School Trustees ("Board"), a seven-member group, has governance responsibilities over all activities related to public elementary and secondary education within the jurisdiction of the District. The Board is elected by the public and has the exclusive power and duty to govern and oversee the management of the public schools of the District. All powers and duties not specifically delegated by statute to the Texas Education Agency ("TEA") or to the State Board of Education are reserved for the Board, and the TEA may not substitute its judgment for the lawful exercise of those powers and duties by the Board. The District receives funding from local, state and federal government sources and must comply with the requirements of those funding entities. However, the District is not included in any other governmental "reporting entity" as defined by the GASB in its Statement No. 14, "The Financial Reporting Entity" and there are no component units included within the reporting entity.

2. BASIS OF PRESENTATION, BASIS OF ACCOUNTING

a. Basis of Presentation

Government-wide Financial Statements: The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements For The Year Ended August 31, 2017

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

General Fund: This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Capital Projects Fund: The proceeds from long-term debt financing and revenues and expenditures related to authorized construction and other capital asset acquisitions are accounted for in a capital projects fund.

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

Special Revenue Funds: The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Permanent Funds: The District accounts for donations for which the donor has stipulated that the principal may not be expended and where the income may only be used for purposes that support the District's programs. The District has no Permanent Funds.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements For The Year Ended August 31, 2017

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custody capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Debt Service Funds: The District accounts for resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds in a debt service fund.

Other Special Revenue Funds: The District accounts for resources restricted to, or designated for, specific purposes by the District or a grantor in a special revenue fund. Most Federal and some State financial assistance is accounted for in a Special Revenue Fund, and sometimes unused balances must be returned to the grantor at the close of specified project periods.

Fiduciary Funds: These funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
For The Year Ended August 31, 2017**

Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use unrestricted resources first, then restricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continue to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen to apply future FASB standards.

3. FINANCIAL STATEMENT AMOUNTS

a. Cash and Cash Equivalents

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

b. Property Taxes

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

	General Fund	Debt Service Fund	Total
Delinquent Taxes	\$ 106,628	\$ 20,474	\$ 127,102
Allowance for Uncollectible Taxes	(15,994)	(3,071)	(19,065)
Net Taxes	<u>\$ 90,634</u>	<u>\$ 17,403</u>	<u>\$ 108,037</u>

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
For The Year Ended August 31, 2017**

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories and Prepaid Items

The District records purchases of supplies as expenditures, utilizing the purchase method of accounting for inventory in accordance with the Resource Guide. Certain Payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	20-40
Building Improvements	20-40
Vehicles	8-10
Office Equipment	5-15
Computer Equipment	5-10

e. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
For The Year Ended August 31, 2017**

f. Interfund Activity

Interfund activity results from loans, service provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" Line of the government-wide statement of net assets.

g. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

h. Data Control Codes

Data Control Codes appear in the rows and above the columns of certain financial statements. The TEA requires the display of these codes in the financial statements filed with TEA in order to insure accuracy in building a statewide database for policy development and funding plans.

i. Fund Balances

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the District's governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints of their use do not come from outside parties, constitutional provisions, or enabling legislation.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements
For The Year Ended August 31, 2017

Assigned Fund Balance – represents amounts which the District intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund’s primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the District itself.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

B. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No, 38, “Certain Financial Statement Note Disclosures,” violation of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
Debt Service Fund	(\$37,464)	Decrease due to property valuations

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements
For The Year Ended August 31, 2017

3. Budgetary Data

The Board of Trustees adopts an "appropriated budget" for the General Fund, Debt Service Fund, and the Food Service Fund which is included in the Special Revenue Funds. The District is required to present the adopted and final amended budgeted revenues and expenditures for each of these funds. The District compares the final amended budget to actual revenues and expenditures. The General Fund Budget report appears in Exhibit G-1 and the other two reports are in Exhibit J2 and J3.

The following procedures are followed in establishing the budgetary data reflected in the general-purpose financial statements:

1. Prior to August 20 the District prepares a budget for the next succeeding fiscal year beginning September 1. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is then called for the purpose of adopting the proposed budget. At least ten days public notice of the meeting must be given.
3. Prior to September 1, the budget is legally enacted through passage of a resolution by the Board. Once a budget is approved, it can only be amended at the function and fund level by approval of a majority of the members of the Board. Amendments are presented to the Board at its regular meetings. Each amendment must have Board approval. As required by law, such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal year end. Because the District has a policy of careful budgetary control, several amendments were necessary during the year.
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. A reconciliation of fund balances for both appropriated budget and nonappropriated budget special revenue funds is as follows:

	<u>August 31, 2017</u> <u>Fund Balance</u>
Appropriated Budget Funds - Food Service Special Revenue Fund	\$ 30,300
Nonappropriated Budget Funds	<u>1,366,180</u>
All Special Revenue Funds	<u>\$ 1,396,480</u>

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

**Notes to the Financial Statements
For The Year Ended August 31, 2017**

5. Excess of expenditure over appropriations

The following is a list of the excess of expenditures over appropriations, at the legal control by an individual fund.

<u>Fund</u>	<u>Function</u>	<u>Amount of Excess</u>
Debt Service Fund	Bond Issuance Cost and Fees	\$ 44,298
Debt Service Fund	Other Intergovernmental Charges	\$ 1,550

C. DEPOSITS AND INVESTMENTS

The District's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the District's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

1. Cash Deposits:

At August 31, 2017, the carrying amount of the District's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$11,290,387 and the bank balance was \$11,380,736. The District's cash deposits at August 31, 2017 and during the year ended August 31, 2017, were entirely covered by the FDIC insurance or by pledged collateral held by the District's agent bank in the District's name.

2. Investments:

The District is required by Government Code Chapter 2256, The Public Funds Investment Act, 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.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practice, management reports and establishment of appropriate policies, the District adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

For The Year Ended August 31, 2017

The Act determines the types of investments which are allowable for the District. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The District had no investments at August 31, 2017.

3. Analysis of Specific Deposit and Investment Risks

GASB Statement no. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end the District was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institutions, or collateralized with securities held by the pledging financial institution's trust department or agent, but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This is the risk that in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements
For The Year Ended August 31, 2017

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

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. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The District's investments in Pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements
For The Year Ended August 31, 2017

D. CAPITAL ASSETS

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 247,824	\$ -	\$ -	\$ 247,824
Construction in Progress	842,967	319,667	-	1,162,634
Total capital assets not being depreciated	<u>1,090,791</u>	<u>319,667</u>	-	<u>1,410,458</u>
Capital assets being depreciated:				
Buildings and Improvements	13,552,462	10,450	-	13,562,912
Furniture and Equipment	469,901	38,091	-	507,992
Vehicles	944,465	-	-	944,465
Totals capital assets being depreciated	<u>14,966,828</u>	<u>48,541</u>	-	<u>15,015,369</u>
Less Accumulated Depreciation for:				
Buildings and improvements	(4,931,405)	(350,157)	-	(5,281,562)
Furniture & Equipment	(373,287)	(8,486)	-	(381,773)
Vehicles	(522,700)	(57,567)	-	(580,267)
Total Accumulated Depreciation	<u>(5,827,392)</u>	<u>(416,210)</u>	-	<u>(6,243,602)</u>
Total capital assets being depreciated, net	<u>\$ 10,230,227</u>	<u>\$ (48,002)</u>	<u>\$ -</u>	<u>\$ 10,182,225</u>

Depreciation was charged to functions as follows:

Instruction	\$ 219,825
Instructional Resources and Media Services	1,989
Curriculum Development and Instructional Staff Development	6,996
Instructional Leadership	3,464
School Leadership	21,453
Guidance, Counseling, & Evaluating Services	14,296
Health Services	4,281
Student (Pupil) Transportation	10,209
Food Services	28,519
Cocurricular/Extracurricular Activities	11,863
General Administration	36,496
Plant Maintenance and Operation	48,674
Security and Monitoring Services	211
Data Processing Services	6,553
Community Services	1,381
Total Depreciation Expense	<u>\$ 416,210</u>

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements
For The Year Ended August 31, 2017

E. INTERFUND BALANCES AND ACTIVITIES

1. Due To and From Other Funds

<u>Due From</u>	<u>Due To</u>	<u>Amount</u>
General Fund	Trust & Agency Funds	\$ 906
Capital Projects	General Fund	\$1,000

F. FUND BALANCES

The District has nonspendable, restricted, committed, and unassigned fund balance as follows.

Nonspendable Fund Balances:

Inventories \$ 3,080

Restricted Fund Balances:

Federal/State Funds Grant Restrictions 82,584

Debt Service -

Other Restricted Fund Balance 82,584

Committed Fund Balances:

Construction 9,260,806

Unassigned:

2,140,646

Total Fund Balances

\$ 11,487,116

G. LONG-TERM OBLIGATIONS

The District has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the District.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements
For The Year Ended August 31, 2017

1. Long-Term Obligations Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term Obligations, for the year ended August 31, 2017, are as follows:

Description	Maturity Date	Interest Rate Payable	Amounts Original Issue	Interest Current Year	Beginning Balance 09/01/16	Increases	Decreases	Ending Balance 08/31/2017	Due within one year
2010 Unlimited Tax Refunding bond	2/15/2031	3-5%	\$ 2,445,000	\$ 50,938	\$ 1,115,000	\$ -	\$ 50,000	\$ 1,065,000	\$ 50,000
2010 Unlimited Tax School Building bond	2/15/2030	3-5%	735,000	22,700	550,000	-	30,000	520,000	30,000
2015 Time Warrants	7/15/2022	2.6%	788,211	16,544	680,867	-	106,313	574,554	109,082
2015 Time Warrants	7/15/2022	2.6%	151,005	3,169	130,446	-	20,367	110,079	20,898
2015 Unlimited Tax Refunding Bonds	2/15/2034	2-4%	1,565,000	50,650	1,475,000	-	55,000	1,420,000	65,000
2016 Unlimited Tax School Building Bonds	2/15/2046	2-4%	6,005,000	224,350	6,005,000	-	150,000	5,855,000	120,000
2016A Unlimited Tax School Building Bonds	2/15/2046	2-4%	2,795,000	70,862	-	2,795,000	80,000	2,715,000	55,000
Premium and discount			159,730	-	975,979	128,690	51,208	1,053,461	51,208
				\$ 439,213	\$ 10,932,292	\$ 2,923,690	\$ 542,888	\$ 13,313,094	\$ 501,188

2. Debt Service Requirements

Debt service requirements on long-term debt at August 31, 2017, are as follows:

Year Ending August 31,	Governmental Activities		
	Principal	Interest	Total
2018	449,980	450,640	900,620
2019	458,366	440,054	898,420
2020	481,840	428,136	909,976
2021	490,406	414,052	904,458
2022	499,064	398,893	897,957
Thereafter	9,879,977	4,565,714	14,445,691
Totals	\$ 12,259,633	\$ 6,697,489	\$ 18,957,122

Advanced and current refundings

On September 28, 2015, the district issued \$1,565,000 of unlimited tax refunding bonds to provide resources to achieve a gross debt service savings of approximately \$229,952 and a net present value savings of approximately \$188,029, being equal to 11.976407% net present value savings for the refunded bonds. The net effective interest rate of the Bonds is 3.501840%. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the governmental activities column of the statement of net assets. The escrow agent shall apply the proceeds of the bonds in the amount of \$1,600,496 in the form of cash to refund the refunded bonds series 2004.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements
For The Year Ended August 31, 2017

H. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2017, the District purchased commercial insurance to cover general liabilities. There were no significant reduction in coverage in the past fiscal year and there were no settlements exceeding insurance coverage for each of the past three fiscal years.

I. DEFINED BENEFIT PENSION PLAN

A. Plan Description

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

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

B. 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.

I. DEFINED BENEFIT PENSION PLAN (continued)

C. 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

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements
For The Year Ended August 31, 2017

I. DEFINED BENEFIT PENSION PLAN (continued)

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.

D. 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 2015 thru 2017. It also added a 1.5% contribution for employers not paying Old Age Survivor and Disability Insurance (OASDI) on certain employees effective for fiscal year 2017 as discussed in Note 1 of the TRS 2015 CAFR. The 83rd Texas Legislature, General Appropriations Act (GAA) established the employer contribution rates for fiscal years 2016 and 2017.

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

Santa Maria ISD 2017 Employer Contributions	\$ 174,535
Santa Maria ISD 2017 Member Contributions	\$ 445,350
Santa Maria ISD 2017 NECE On-Behalf Contributions	\$ 305,573

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

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements
For The Year Ended August 31, 2017

I. DEFINED BENEFIT PENSION PLAN (continued)

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.

E. Actuarial Assumptions

The total pension liability in the August 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Valuation Date	August 31, 2016
Actuarial Cost Method	Individual Entry
	Age Normal
Asset Valuation Method	Market Value
Value	
Discount Rate	8.00%
Long-term expected Investment Rate of Return*	8.00%
Inflation	2.5%
Salary Increases including Inflation	3.5 to 9.5%
Weighted-Average at Valuation Date	5.55%
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

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements
For The Year Ended August 31, 2017

I. DEFINED BENEFIT PENSION PLAN (continued)

F. Discount Rate

The discount rate used to measure the total pension liability was 8.0%. There was no change in the discount rate since the previous year. The projection of cash flows used to determine the discount rate assumed that contributions from plan members and those of the contributing employers and the non-employer contributing entity are made at the statutorily required rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability. The long-term rate of return on pension plan investments is 8%. The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimates ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of geometric real rates of return for each major asset class included in the Systems target asset allocation as of August 31, 2016 are summarized below:

Asset Class	Target Allocation	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%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-0.2%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	0.9%	0.0%
Real Assets	16%	5.1%	1.1%
Energy and Natural Resources	3%	6.6%	0.2%
Commodities	0%	1.2%	0.0%
Risk Parity			
Risk Parity	5%	6.7%	0.3%
Inflation Expectations			2.2%
Alpha	0%	0.0%	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.*

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements
For The Year Ended August 31, 2017

I. DEFINED BENEFIT PENSION PLAN (continued)

G. Discount Rate Sensitivity Analysis

The following schedule shows the impact of the Net Pension Liability if the discount rate used was 1% less than and 1% greater than the discount rate that was used (8%) in measuring the 2016 Net Pension Liability.

	1% Decrease in Discount Rate (7.0%)	Discount Rate (8.0%)	1% Increase in Discount Rate (9.0%)
Santa Maria ISD's proportionate share of the net pension liability:	\$ 4,053,916	\$ 2,619,379	\$ 1,402,601

H. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At August 31, 2017, the District reported a liability of \$2,619,379 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	\$2,619,379
State's proportionate share that is associated with the District	<u>3,627,099</u>
Total	<u><u>\$6,246,478</u></u>

The net pension liability was measured as of August 31, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The 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, 2015 thru August 31, 2016.

At August 31, 2016 the employer's proportion of the collective net pension liability was .0069317% which was an increase(decrease) of .0008602% from its proportion measured as of August 31, 2015.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements For The Year Ended August 31, 2017

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

Economic Assumptions

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

Mortality Assumptions

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

Other Demographic Assumptions

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

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements
For The Year Ended August 31, 2017

I. DEFINED BENEFIT PENSION PLAN (continued)

Actuarial Methods and Policies

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

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

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

For the year ended August 31, 2017, the District recognized pension expense of \$376,406 and revenue of \$376,406 for support provided by the State.

At August 31, 2017, the District reported its proportionate share of the TRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Outflows of Resources	Inflows of Resources
Differences between expected and actual economic experience	\$ 41,071	\$ 78,213
Changes in actuarial assumptions	79,834	72,606
Difference between projected and actual investment earnings	221,804	-
Changes in proportion and difference between the employer's contributions and the proportionate share of contributions	700,410	188
Total as of August 31, 2016 measurement date	1,043,119	151,007
Contributions paid to TRS subsequent to the measurement date [to be calculated by employer]	174,535	
Total	\$1,217,654	\$ 151,007

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

Year ended August 31:	Pension Expense Amount
2018	153,770
2019	153,770
2020	295,247
2021	142,896
2022	101,620
Thereafter	44,810

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
For The Year Ended August 31, 2017

I. DEFINED BENEFIT PENSION PLAN (continued)

	Beginning Balance	Additions	Retirements	Ending Balance
Net Pension Liability	\$2,146,194	\$ 693,422	\$ 220,237	\$2,619,379

Medicare 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 must be recognized as equal revenues and expenditures/expenses by each reporting entity. The on behalf payments for Santa Maria Independent School District for 2017, 2016 and 2015 were \$15,821, \$25,602, and \$22,173 respectively.

J. RETIREE HEALTH CARE PLAN

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

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203, and 204 establish state, active employee, and public school contributions, respectively. The State of Texas and active public school employee contribution rates were 0.75% and 0.65% of public school payroll, respectively, with school districts contributing a percentage of payroll set at 0.75% for fiscal years 2017, 2016 and 2015. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For the years ended August 31, 2017, 2016, and 2015, the State's contributions to TRS-Care were \$26,126, \$28,128, and \$36,285, respectively, and the school district's contributions were \$31,808, \$34,122, and \$32,256, respectively, which equaled the required contributions each year.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
 Notes to the Financial Statements
 For The Year Ended August 31, 2017

K. HEALTH CARE COVERAGE

During the year ended August 31, 2017, employees of the District were covered by health insurance plan (the Plan). The District paid premiums of \$298 per month per employee to the Plan. Employees, at their option, authorized payroll withholdings to pay premiums for dependents. All premiums were paid to a licensed insurer. The Plan was authorized by Article 3.51-2, Texas Insurance Code and was documented by contractual agreement. The contract between the District and the licensed insurer is renewable October 1, and terms of coverage and premium costs are included in the contractual provisions.

L. COMMITMENTS AND CONTINGENCIES

1. Contingencies

The District participates in grant programs which are governed by various rules 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 basic financial statements for such contingencies.

M. DEFERRED REVENUE

Deferred revenue at year end consisted of the following:

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
Net Tax Revenue	\$ 90,634	\$ -	\$ 17,403	\$ 108,037
Federal Grant	-	-	-	-
Total Deferred Revenue	<u>\$ 90,634</u>	<u>\$ -</u>	<u>\$ 17,403</u>	<u>\$ 108,037</u>

SANTA MARIA INDEPENDENT SCHOOL DISTRICT

Notes to the Financial Statements

For The Year Ended August 31, 2017

N. DUE FROM STATE AGENCIES

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

<u>DUE FROM FUND</u>	<u>STATE ENTITLEMENTS</u>	<u>FEDERAL GRANTS</u>	<u>TOTAL</u>
General	\$ 530,815	\$ -	\$ 530,815
Special Revenue	-	192,860	192,860
Total	<u>530,815</u>	<u>192,860</u>	<u>723,675</u>

<u>DUE TO FUND</u>			
General	499,262	-	499,262
Special Revenue	-	30,848	30,848
Debt Service	2,218	-	2,218
	<u>\$ 2,218</u>	<u>\$ 30,848</u>	<u>\$ 532,328</u>

O. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Total</u>
Property Taxes	\$ 599,447	\$ -	\$ 146,838	\$ -	\$ 746,285
Penalties, Interest and Other					
Tax-related Income	28,711	-	5,881	-	34,592
Investment Income	16,429	-	366	81,722	98,517
Food Sales	-	6,411	-	-	6,411
Co-curricular Student Activities	14,637	-	-	-	14,637
Other	1,892	46,581	-	-	48,473
Total	<u>\$ 661,116</u>	<u>\$ 52,992</u>	<u>\$ 153,085</u>	<u>\$ 81,722</u>	<u>\$ 948,915</u>

P. EVALUATION OF SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through January 24, 2018, the date which the financial statements were available to be issued.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
Notes to the Financial Statements
For The Year Ended August 31, 2017

Q. MAINTENANCE OF EFFORT-HEALTH CARE

For fully insured districts/entities/risk pools, enter the total amount paid by the district for employee health care premiums as reported to TEA per Note L.

a) Total District Premium paid for health care 2016-2017		<u>\$ 398,644</u>
b) Subtract any non-medical expenditures		
Life Insurance	\$ 1,590	
Long-Term Disability	-	
c) 2016-2017 Maintenance of Effort		<u>\$ 397,054</u>

R. GASB 63

GASB 63 – Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources are the consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources are the acquisition of net assets by the government that is applicable to a future reporting period. Deferred outflows of resources and deferred inflows of resources are incorporated into the definitions of the required components of the residual measure and that measure is renamed as net position, rather than net assets.

S. PRIOR PERIOD ADJUSTMENT

The fund balance at the beginning of the year for 2017 has been restated from the balance previously in 2016 to reflect an adjustment of (\$361,222) for an overstatement of assets, due to the recording of a duplicate cash receipt. The effect of the correction of the error is a decrease to ending fund balance at August 31, 2017.

T. GASB 68

GASB 68 – establishes standards for accounting and financial reporting, but not funding or budgetary standards, for defined benefit pensions and defined contribution pensions provided to the employees of state and local government employers through pension plans that are administered through trusts or equivalent arrangements criteria as described in GASB 67. This statement replaces the requirements of GASB Statement 27, Accounting for Pensions by State and Local Governmental Employers. Statement No. 71 amends Statement No. 68 to require that, at transition, a government recognize a beginning outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning pension liability

**REQUIRED SUPPLEMENTARY
INFORMATION**

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 616,100	\$ 685,700	\$ 714,109	\$ 28,409
5800	State Program Revenues	7,036,753	7,816,886	7,102,299	(714,587)
5900	Federal Program Revenues	37,000	797,500	751,959	(45,541)
5020	Total Revenues	7,689,853	9,300,086	8,568,367	(731,719)
EXPENDITURES:					
Current:					
0011	Instruction	3,928,030	4,395,765	4,300,988	94,777
0012	Instructional Resources and Media Services	72,072	18,736	7,714	11,022
0013	Curriculum and Instructional Staff Development	41,005	48,005	28,711	19,294
0021	Instructional Leadership	61,758	5,523	-	5,523
0023	School Leadership	373,074	558,010	539,659	18,351
0031	Guidance, Counseling and Evaluation Services	64,555	34,555	21,053	13,502
0032	Social Work Services	46,090	48,090	44,250	3,840
0033	Health Services	73,095	82,095	75,752	6,343
0034	Student (Pupil) Transportation	324,422	316,422	267,972	48,450
0035	Food Services	-	823,133	753,614	69,519
0036	Extracurricular Activities	224,901	256,901	244,923	11,978
0041	General Administration	869,748	902,748	842,567	60,181
0051	Facilities Maintenance and Operations	829,359	1,062,359	974,805	87,554
0052	Security and Monitoring Services	121,193	118,193	84,665	33,528
0053	Data Processing Services	196,946	203,946	145,777	58,169
Debt Service:					
0071	Principal on Long Term Debt	372,524	319,789	302,212	17,577
0073	Bond Issuance Cost and Fees	-	735	-	735
Capital Outlay:					
0081	Facilities Acquisition and Construction	8,648	8,648	-	8,648
Intergovernmental:					
0093	Payments to Fiscal Agent/Member Districts of SSA	74,349	78,349	78,318	31
0099	Other Intergovernmental Charges	8,084	18,084	14,925	3,159
6030	Total Expenditures	7,689,853	9,300,086	8,727,905	572,181
1200	Net Change in Fund Balances	-	-	(159,538)	(159,538)
0100	Fund Balance - September 1 (Beginning)	2,701,950	2,701,950	2,701,950	-
1300	Increase (Decrease) in Fund Balance	-	-	(361,222)	(361,222)
3000	Fund Balance - August 31 (Ending)	\$ 2,701,950	\$ 2,701,950	\$ 2,181,190	\$ (520,760)

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

	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
District's Proportion of the Net Pension Liability (Asset)	0.0069317%	0.0060715%	0.004028%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 2,619,379	\$ 2,146,194	\$ 1,075,935
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	3,627,099	3,672,517	2,942,014
Total	<u>\$ 6,246,478</u>	<u>\$ 5,818,711</u>	<u>\$ 4,017,949</u>
District's Covered-Employee Payroll	\$ 6,202,071	\$ 5,850,793	\$ 5,476,195
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	42.23%	36.68%	83.25%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.00%	78.43%	78.43%

Note: GASB 68, Paragraph 81 requires that the information on this schedule be data from the period corresponding with the periods covered as of the measurement dates of August 31, 2016 for Year 2017, August 31, 2015 for Year 2016 and August 31, 2014 for 2015.

Note: In accordance with GASB 68, Paragraph 138, only three years of data are presented this reporting period. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF DISTRICT CONTRIBUTIONS
 TEACHER RETIREMENT SYSTEM OF TEXAS
 FOR FISCAL YEAR 2017

	2017	2016	2015
Contractually Required Contribution	\$ 174,535	\$ 225,375	\$ 179,685
Contribution in Relation to the Contractually Required Contribution	(174,535)	(225,375)	(179,685)
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-
District's Covered-Employee Payroll	\$ 5,783,140	\$ 6,202,071	\$ 5,850,793
Contributions as a Percentage of Covered-Employee Payroll	3.02%	3.63%	3.07%

Note: GASB 68, Paragraph 81 requires that the data in this schedule be presented as of the District's respective fiscal years as opposed to the time periods covered by the measurement dates ending August 31 for the respective fiscal years.

Note: In accordance with GASB 68, Paragraph 138, the years of data presented this reporting period are those for which data is available. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement."

COMBINING AND OTHER STATEMENTS

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2017

Data Control Codes	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	242 Summer Feeding Program	255 ESEA II,A Training and Recruiting	
ASSETS					
1110	Cash and Cash Equivalents	\$ 23,473	\$ 5,779	\$ 4,979	\$ 2,179
1220	Property Taxes - Delinquent	-	-	-	-
1230	Allowance for Uncollectible Taxes (Credit)	-	-	-	-
1240	Receivables from Other Governments	-	-	77,605	-
1290	Other Receivables	-	-	-	-
1410	Prepayments	4,194	876	-	537
1000	Total Assets	<u>\$ 27,667</u>	<u>\$ 6,655</u>	<u>\$ 82,584</u>	<u>\$ 2,716</u>
LIABILITIES					
2110	Accounts Payable	\$ -	\$ -	\$ -	\$ -
2160	Accrued Wages Payable	5,248	1,728	-	-
2170	Due to Other Funds	-	-	-	-
2180	Due to Other Governments	22,419	4,927	-	2,716
2000	Total Liabilities	<u>27,667</u>	<u>6,655</u>	<u>-</u>	<u>2,716</u>
DEFERRED INFLOWS OF RESOURCES					
2601	Unavailable Revenue - Property Taxes	-	-	-	-
2600	Total Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES					
Restricted Fund Balance:					
3480	Retirement of Long-Term Debt	-	-	82,584	-
3600	Unassigned Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>82,584</u>	<u>-</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 27,667</u>	<u>\$ 6,655</u>	<u>\$ 82,584</u>	<u>\$ 2,716</u>

263 Title III, A English Lang. Acquisition	270 ESEA VI, Pt B Rural & Low Income	274 GEAR UP	287 Education Jobs Fund	331 SSA - Career & Technical - Basic Grant	410 State Textbook Fund	415 Kindergarten and Pre-K Grants	429 Other State Special Revenue Funds
\$ -	\$ 297	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	101,848	2,699	168	-	10,338	202
-	-	-	40,828	1,102	-	-	-
282	321	1,517	-	-	-	-	-
<u>\$ 282</u>	<u>\$ 618</u>	<u>\$ 103,365</u>	<u>\$ 43,527</u>	<u>\$ 1,270</u>	<u>\$ -</u>	<u>\$ 10,338</u>	<u>\$ 202</u>
\$ 114	\$ -	\$ 103,365	\$ 40,367	\$ 1,270	\$ -	\$ 10,338	\$ 202
-	-	-	3,160	-	-	-	-
-	-	-	-	-	-	-	-
168	618	-	-	-	-	-	-
<u>282</u>	<u>618</u>	<u>103,365</u>	<u>43,527</u>	<u>1,270</u>	<u>-</u>	<u>10,338</u>	<u>202</u>
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
<u>\$ 282</u>	<u>\$ 618</u>	<u>\$ 103,365</u>	<u>\$ 43,527</u>	<u>\$ 1,270</u>	<u>\$ -</u>	<u>\$ 10,338</u>	<u>\$ 202</u>

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 AUGUST 31, 2017

Data Control Codes	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds	
ASSETS				
1110	Cash and Cash Equivalents	\$ 36,707	\$ 45,349	\$ 82,056
1220	Property Taxes - Delinquent	-	20,474	20,474
1230	Allowance for Uncollectible Taxes (Credit)	-	(3,071)	(3,071)
1240	Receivables from Other Governments	192,860	-	192,860
1290	Other Receivables	41,930	-	41,930
1410	Prepayments	7,727	-	7,727
1000	Total Assets	<u>\$ 279,224</u>	<u>\$ 62,752</u>	<u>\$ 341,976</u>
LIABILITIES				
2110	Accounts Payable	\$ 155,656	\$ -	\$ 155,656
2160	Accrued Wages Payable	10,136	-	10,136
2170	Due to Other Funds	-	80,596	80,596
2180	Due to Other Governments	30,848	2,217	33,065
2000	Total Liabilities	<u>196,640</u>	<u>82,813</u>	<u>279,453</u>
DEFERRED INFLOWS OF RESOURCES				
2601	Unavailable Revenue - Property Taxes	-	17,403	17,403
2600	Total Deferred Inflows of Resources	<u style="text-align: center;">-</u>	<u>17,403</u>	<u>17,403</u>
FUND BALANCES				
Restricted Fund Balance:				
3480	Retirement of Long-Term Debt	82,584	-	82,584
3600	Unassigned Fund Balance	-	(37,464)	(37,464)
3000	Total Fund Balances	<u>82,584</u>	<u>(37,464)</u>	<u>45,120</u>
4000	Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 279,224</u>	<u>\$ 62,752</u>	<u>\$ 341,976</u>

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

Data Control Codes	211 ESEA I, A Improving Basic Program	212 ESEA Title I Part C Migrant	242 Summer Feeding Program	255 ESEA II,A Training and Recruiting
REVENUES:				
5700 Total Local and Intermediate Sources	\$ -	\$ -	\$ -	\$ -
5800 State Program Revenues	-	-	-	-
5900 Federal Program Revenues	633,863	222,268	50,850	47,684
5020 Total Revenues	<u>633,863</u>	<u>222,268</u>	<u>50,850</u>	<u>47,684</u>
EXPENDITURES:				
Current:				
0011 Instruction	385,922	181,502	-	47,684
0012 Instructional Resources and Media Services	9,038	-	-	-
0013 Curriculum and Instructional Staff Development	2,388	-	-	-
0023 School Leadership	438	-	-	-
0031 Guidance, Counseling and Evaluation Services	187,696	-	-	-
0032 Social Work Services	-	40,766	-	-
0035 Food Services	-	-	22,935	-
0061 Community Services	48,381	-	-	-
Debt Service:				
0071 Principal on Long Term Debt	-	-	-	-
0072 Interest on Long Term Debt	-	-	-	-
0073 Bond Issuance Cost and Fees	-	-	-	-
Intergovernmental:				
0099 Other Intergovernmental Charges	-	-	-	-
6030 Total Expenditures	<u>633,863</u>	<u>222,268</u>	<u>22,935</u>	<u>47,684</u>
1200 Net Change in Fund Balance	-	-	27,915	-
0100 Fund Balance - September 1 (Beginning)	-	-	54,669	-
3000 Fund Balance - August 31 (Ending)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,584</u>	<u>\$ -</u>

263 Title III, A English Lang. Acquisition	270 ESEA VI, Pt B Rural & Low Income	274 GEAR UP	287 Education Jobs Fund	331 SSA - Career & Technical - Basic Grant	410 State Textbook Fund	415 Kindergarten and Pre-K Grants	429 Other State Special Revenue Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-	40,258	4,052
28,579	13,909	70,368	44,160	11,628	-	-	-
<u>28,579</u>	<u>13,909</u>	<u>70,368</u>	<u>44,160</u>	<u>11,628</u>	<u>-</u>	<u>40,258</u>	<u>4,052</u>
28,579	13,909	70,368	44,160	11,628	-	40,258	4,052
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
28,579	13,909	70,368	44,160	11,628	-	40,258	4,052
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

Data Control Codes	Total Nonmajor Special Revenue Funds	599 Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ -	\$ 153,085	\$ 153,085
5800 State Program Revenues	44,310	332,720	377,030
5900 Federal Program Revenues	1,123,309	-	1,123,309
5020 Total Revenues	<u>1,167,619</u>	<u>485,805</u>	<u>1,653,424</u>
EXPENDITURES:			
Current:			
0011 Instruction	828,062	-	828,062
0012 Instructional Resources and Media Services	9,038	-	9,038
0013 Curriculum and Instructional Staff Development	2,388	-	2,388
0023 School Leadership	438	-	438
0031 Guidance, Counseling and Evaluation Services	187,696	-	187,696
0032 Social Work Services	40,766	-	40,766
0035 Food Services	22,935	-	22,935
0061 Community Services	48,381	-	48,381
Debt Service:			
0071 Principal on Long Term Debt	-	94,153	94,153
0072 Interest on Long Term Debt	-	424,733	424,733
0073 Bond Issuance Cost and Fees	-	47,298	47,298
Intergovernmental:			
0099 Other Intergovernmental Charges	-	1,550	1,550
6030 Total Expenditures	<u>1,139,704</u>	<u>567,734</u>	<u>1,707,438</u>
1200 Net Change in Fund Balance	27,915	(81,929)	(54,014)
0100 Fund Balance - September 1 (Beginning)	<u>54,669</u>	<u>44,465</u>	<u>99,134</u>
3000 Fund Balance - August 31 (Ending)	<u>\$ 82,584</u>	<u>\$ (37,464)</u>	<u>\$ 45,120</u>

T.E.A. REQUIRED SCHEDULES

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DELINQUENT TAXES RECEIVABLE
FISCAL YEAR ENDED AUGUST 31, 2017

Last 10 Years Ended August 31	(1)	(2)	(3)
	Tax Rates		Assessed/Appraised Value for School Tax Purposes
	Maintenance	Debt Service	
2008 and prior years	Various	Various	\$ 191,954,750
2009	1.040000	0.225900	38,362,009
2010	1.040000	0.214900	38,133,308
2011	1.040000	0.235900	38,000,227
2012	1.040000	0.240000	40,490,859
2013	1.040000	0.240000	39,547,355
2014	1.040000	0.240000	40,939,688
2015	1.170000	0.110000	41,677,972
2016	1.170000	0.110000	41,084,909
2017 (School year under audit)	1.170000	0.310000	51,799,024
1000 TOTALS			

(10) Beginning Balance 9/1/2016	(20) Current Year's Total Levy	(31) Maintenance Collections	(32) Debt Service Collections	(40) Entire Year's Adjustments	(50) Ending Balance 8/31/2017
\$ 25,930	\$ -	\$ 2,149	\$ 288	\$ -	\$ 23,493
3,415	-	575	125	-	2,715
4,729	-	662	137	-	3,930
5,226	-	650	150	-	4,426
5,685	-	526	121	(44)	4,994
7,032	-	2,740	632	(62)	3,598
10,475	-	4,014	926	341	5,876
16,611	-	8,275	778	307	7,865
37,629	-	21,851	2,428	143	13,493
-	758,965	556,256	147,384	1,387	56,712
<u>\$ 116,732</u>	<u>\$ 758,965</u>	<u>\$ 597,698</u>	<u>\$ 152,969</u>	<u>\$ 2,072</u>	<u>\$ 127,102</u>

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

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)
	Original	Final		
REVENUES:				
5700 Total Local and Intermediate Sources	\$ 65,000	\$ 65,000	\$ 52,992	\$ (12,008)
5800 State Program Revenues	18,133	18,133	3,778	(14,355)
5900 Federal Program Revenues	620,000	620,000	589,269	(30,731)
5020 Total Revenues	703,133	703,133	646,039	(57,094)
EXPENDITURES:				
0035 Food Services	703,133	703,133	642,897	60,236
6030 Total Expenditures	703,133	703,133	642,897	60,236
1200 Net Change in Fund Balances	-	-	3,142	3,142
0100 Fund Balance - September 1 (Beginning)	(8,370)	(8,370)	(8,370)	-
3000 Fund Balance - August 31 (Ending)	\$ (8,370)	\$ (8,370)	\$ (5,228)	\$ 3,142

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
 BUDGET AND ACTUAL - DEBT SERVICE FUND
 FOR THE YEAR ENDED AUGUST 31, 2017

Data Control Codes	Budgeted Amounts		Actual Amounts (GAAP BASIS)	Variance With Final Budget Positive or (Negative)	
	Original	Final			
REVENUES:					
5700	Total Local and Intermediate Sources	\$ 170,456	\$ 170,456	\$ 153,085	\$ (17,371)
5800	State Program Revenues	634,993	634,993	332,720	(302,273)
5020	Total Revenues	805,449	805,449	485,805	(319,644)
EXPENDITURES:					
Debt Service:					
0071	Principal on Long Term Debt	447,810	373,810	94,153	279,657
0072	Interest on Long Term Debt	354,639	428,639	424,733	3,906
0073	Bond Issuance Cost and Fees	3,000	3,000	47,298	(44,298)
Intergovernmental:					
0099	Other Intergovernmental Charges	-	-	1,550	(1,550)
6030	Total Expenditures	805,449	805,449	567,734	237,715
1200	Net Change in Fund Balances	-	-	(81,929)	(81,929)
0100	Fund Balance - September 1 (Beginning)	44,465	44,465	44,465	-
3000	Fund Balance - August 31 (Ending)	\$ 44,465	\$ 44,465	\$ (37,464)	\$ (81,929)

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REPORTS ON
INTERNAL CONTROLS, COMPLIANCE
AND
FEDERAL AWARDS

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Raul Hernandez & Company, P.C.

Certified Public Accountants
5402 Holly Rd, Suite 102
Corpus Christi, Texas 78411
Office (361)980-0482 Fax (361)980-1002

**Report on Internal Control Over Financial Reporting and on Compliance and
Other Matters Based on an Audit of Financial Statements Performed in Accordance
With *GOVERNMENT AUDITING STANDARDS***

Independent Auditor's Report

Santa Maria Independent School District
P.O. Box 448
Santa Maria, Texas 78592

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 Santa Maria Independent School District, as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise Santa Maria Independent School District's basic financial statements, and have issued our report thereon dated January 24, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Santa Maria 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 Santa Maria Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of Santa Maria 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Santa Maria 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.

Raul Hernandez & Company, P.C.

Corpus Christi, Texas

January 24, 2018

Raul Hernandez & Company, P.C.

Certified Public Accountants
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Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; and Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

Independent Auditors' Report

Santa Maria Independent School District
P.O. Box 448
Santa Maria, Texas 78592

Report on Compliance for Each Major Federal Program

We have audited Santa Maria Independent School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Santa Maria Independent School District's major federal programs for the year ended August 31, 2017. Santa Maria 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 Santa Maria 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 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 Santa Maria 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 Santa Maria Independent School District's compliance.

Opinion on Each Major Federal Program

In our opinion, Santa Maria 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 August 31, 2017.

Report on Internal Control over Compliance

Management of Santa Maria 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 Santa Maria 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 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 Santa Maria Independent School District's internal control over compliance.

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

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

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

Report on Schedule of Expenditures of Federal Awards by the Uniform Guidance

We have audited the financial statements of Santa Maria Independent School District as of and for the year ended August 31, 2017, and have issued our report thereon dated January 24, 2018, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Raal Hernandez & Company, P.C.

Corpus Christi, Texas

January 24, 2018

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

I. Summary of Auditor's Results

1. Type of auditor's report issued on the financial statements of the auditee	Unmodified
2. Significant deficiencies in internal controls disclosed by the audit of the financial statements	None
a. Significant deficiencies that were material weaknesses	None
3. Noncompliance material to the financial statements of the auditee disclosed by the audit of the financial statements	None
4. Significant deficiencies in internal controls over major programs disclosed by the audit of the financial statements	None
a. Significant deficiencies that were material weaknesses	None
5. Type of auditor's report issued on compliance for major programs	Unmodified
6. Findings disclosed by the audit of the financial statements which the auditor is required to report	None
7. Major Programs:	
10.553 School Breakfast Program	
10.555 National School Lunch Program	
8. The dollar threshold used to distinguish between Type A and Type B programs	\$ 750,000
9. Auditee qualified as a low-risk auditee	Yes

II. Findings related to the Financial Statements which are required to be reported in accordance with generally accepted government auditing standards. None

A. Questioned Costs: \$ 0.

. Findings and questioned costs for state and federal awards. None.

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED AUGUST 31, 2017

NONE

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED AUGUST 31, 2017

N/A

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED AUGUST 31, 2017

(1)	(2)	(3)	(4)
FEDERAL GRANTOR/ PASS-THROUGH GRANTOR/ PROGRAM or CLUSTER TITLE	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
<u>Passed Through State Department of Education</u>			
ESEA, Title I, Part A - Improving Basic Programs	84.010A	17 - 610112031913	\$ 633,863
ESEA, Title I, Part C - Migratory Children	84.011	17 - 615001031913	222,268
SSA - Career and Technical - Basic Grant	84.048	17 - 420006108910	11,628
GEAR UP	84.334S	P-334A110180-16	70,368
ESEA, Title VI, Part B - Rural & Low Income Prog.	84.358B	17 - 696001031913	13,909
Title III, Part A - English Language Acquisition	84.365A	17 - 671001031913	28,579
ESEA, Title II, Part A, Teacher/Principal Training	84.367A	17 - 694501031913	47,684
Education Jobs Fund	84.374A	17 - D10531333	44,160
Total Passed Through State Department of Education			1,072,459
TOTAL U.S. DEPARTMENT OF EDUCATION			1,072,459
U.S. DEPARTMENT OF AGRICULTURE			
<u>Passed Through the State Department of Agriculture</u>			
*School Breakfast Program	10.553	71401701	211,732
*National School Lunch Program - Cash Assistance	10.555	71301701	428,388
Total Child Nutrition Cluster			640,120
Total Passed Through the State Department of Agriculture			640,120
TOTAL U.S. DEPARTMENT OF AGRICULTURE			640,120
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,712,579

*Clustered Programs

SANTA MARIA INDEPENDENT SCHOOL DISTRICT
NOTES ON ACCOUNTING POLICIES FOR FEDERAL AWARDS
YEAR ENDED AUGUST 31, 2017

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

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

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

- The period of availability for federal grant funds for the purpose of liquidation of outstanding obligations made on or before the ending date of the federal project period extended 30 days beyond the federal project period ending date, in accordance with provisions in Section H, Period of Availability of Federal Funds, Part 3, OMB Circular A-133 Compliance Statement- Provisional 6/97.
- CFDA number 10.550 pertains to food commodities distributed by USDA under the following categorical programs (as applicable): the National School Lunch Program (CFDA 10.555), the Child and Adult Care Food Program (CFDA 10.558), the Summer Food Service Program (CFDA 10.559), the Commodity Supplemental Food Program (CFDA 10.565), and the Food Distribution Program on Indian Reservations (CFDA 10.567). USDA deleted this number from the CFDA on May 6, 2008. The audit covering Santa Maria Independent School District fiscal year beginning September 1, 2013, and future audits, will therefore identify commodity assistance by the CFDA numbers of the programs under which USDA donated the commodities.



