

CERTIFICATE OF BOARD

<u>Walnut Bend Independent School District</u>	<u>Cooke</u>	<u>049908</u>
Name of School District	County	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 day of January, 2018.

Virginia Mc Nair
Signature of Board Secretary

Bob Clark
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.)

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

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WALNUT BEND INDEPENDENT SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
FOR THE YEAR ENDED AUGUST 31, 2017

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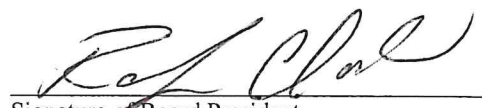
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Signature of Board Secretary


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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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Walnut Bend Independent School District
47 CR 198
Gainesville, Texas 76240

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 the Walnut Bend Independent School District (the District), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 Walnut Bend Independent School District as of August 31, 2016 and the respective changes in financial position 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 (pages 4 through 9), the budgetary comparison, schedules of TRS net pension liability and the District's TRS contributions (pages 34 through 36) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Walnut Bend Independent School District's basic financial statements. The combining nonmajor fund financial statements and the required TEA schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The Texas Education Agency requires school districts to include certain information in the Annual Financial and Compliance Report in conformity with laws and regulations of the State of Texas. This information is in Exhibits identified in the Table of Contents as J-1 and J-2.

The combining nonmajor fund financial statements and the required TEA schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining nonmajor fund financial statements and the required TEA schedules 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 19, 2018 on our consideration of the Walnut Bend 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 the Walnut Bend Independent School District's internal control over financial reporting and compliance.

A handwritten signature in blue ink, appearing to read "Schalk & Smith, P.C.", is written over the printed name.

Schalk & Smith, P.C.

January 19, 2018

WALNUT BEND INDEPENDENT SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

In this section of the Annual Financial and Compliance Report, we, the managers of Walnut Bend Independent School District (the "District"), discuss and analyze the District's financial performance for the fiscal year ended August 31, 2017. Please read it in conjunction with the independent auditor's report on pages 2 and 3 and the District's Basic Financial Statements that begin on page 10.

FINANCIAL HIGHLIGHTS

- The District's combined net position was \$1,769,694 at August 31, 2017, an increase of \$97,022.
- During the year, the District had income of \$990,769 and expenses in the amount of \$893,747. This compares to last year when the income was \$881 more than the expenses.
- The cost of all the District's programs was \$893,747.
- The General Fund ended the year with a fund balance of \$1,039,367 .

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities (on pages 10 and 11). These provide information about the activities of the District as a whole and present a longer-term view of the District's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

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

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

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

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

The analysis of the District's overall financial condition and operations begins on page 10. Its primary purpose is to show whether the District's financial situation has improved 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 or from disadvantaged backgrounds (program revenues), and revenues provided by the taxpayers or by TEA in equalization funding processes (general revenues). All the District's assets are reported whether they serve the current year or future years. Liabilities are considered regardless of whether they must be paid in the current or future years.

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

In the Statement of Net Position and the Statement of Activities, the District discloses the following kind of activities:

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 12 and provide detailed information about the most significant funds—not the District as a whole. Laws and contracts require the District to establish some funds, such as grants received under the No Child Left Behind Act from the U.S. Department of Education. The District's administration establishes many other funds to help it control and manage money for particular purposes (like campus activities).

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 an alumni scholarship program. All of the District's fiduciary activities are reported in the Statement of Fiduciary Net Position on page 16. We exclude these resources from the District's other financial statements because the District cannot use these assets to finance its operations. The District is only responsible for ensuring that the assets reported in these funds are used for their intended purposes.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Our analysis focuses on the Net Position (Table I) and changes in Net Position (Table II) of the District's governmental type activities. As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1,769,694, which represented an increase of \$97,022 over the prior year net position of \$1,672,672. 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 \$968,608 at August 31, 2017.

Table I
NET POSITION

	Governmental Activities 2017	Governmental Activities 2016
Current and other assets	\$ 1,113,689	\$ 1,046,474
Capital assets	780,916	732,520
Total assets	1,894,605	1,778,994
Deferred outflows of resources	58,238	72,032
Long-term liabilities	124,120	130,755
Other liabilities	46,249	37,871
Total liabilities	170,369	168,626
Deferred inflows of resources	12,780	9,728
Net position		
Invested in capital assets net of related debt	780,916	732,520
Restricted	20,170	5,752
Unrestricted	968,608	934,400
Total net position	\$ 1,769,694	\$ 1,672,672

Investment in capital assets (e.g., land, buildings, furniture, and equipment) less any related debt used to acquire those assets that is still outstanding is \$780,916. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. An additional portion of the District's total net position in the amount of \$20,170 (approximately 1.1%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$968,608) may be used to meet the District's ongoing obligations. This surplus is not an indication that the District has significant resources available to meet financial obligations next year, but rather the result of having *long-term commitments* that are less than currently available resources.

Governmental activities. The District's total net position increased by \$97,022. The District recognized their proportionate share of net pension liability (\$124,120). The total cost of all governmental activities was \$893,747, which was \$15,269 (1.74%) higher than the previous year.

Table II
Changes in Net Position

	Governmental Activities 2017	Governmental Activities 2016
Revenues:		
Program Revenues:		
Charges for Services	\$ 7,230	\$ 19,180
Operating grants and contributions	131,351	120,133
General Revenues		
Maintenance and operations taxes	115,792	184,715
Grants and Contributions not restricted to specific functions	629,218	551,108
Investment Earnings	5,351	4,223
Miscellaneous	101,827	-
Total Revenue	<u>990,769</u>	<u>879,359</u>
Expenses:		
Instruction, curriculum and media services	475,165	479,558
Instructional and school leadership	70,025	68,724
Student support services	44,659	50,576
Child nutrition	83,111	81,367
Co-curricular activities	6,049	3,386
General Administration	105,657	97,489
Plant maintenance, security & data processing	95,761	88,680
Payments to Fiscal Agent	10,430	5,482
Other Intergovernmental Charges	2,890	3,216
Total Expenses	<u>893,747</u>	<u>878,478</u>
Increase in net position	97,022	881
Net position at 9/1	1,672,672	1,671,791
Prior period adjustment	-	-
Net position at 8/31	<u>\$ 1,769,694</u>	<u>\$ 1,672,672</u>

- The District did not change the property tax rates. It remained at 1.04 per \$100 of valuation for the current year. There was a decrease in assessed valuation resulted in a decrease in tax revenues from the previous year of \$68,923. State funding increased by \$78,110 during the current year.
- As shown in the Statement of Activities on page 11, the amount that our taxpayers ultimately financed for these activities through District taxes was \$18,770 because some of the costs were paid by those who directly benefited from the programs (\$7,230) or by other governments and organizations that subsidized certain programs with grants and contributions (\$131,351) or by other miscellaneous sources and investment earnings (\$107,178) or by State equalization funding (\$629,218).

THE DISTRICT'S FUNDS

As the District completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$1,059,537, which is higher than last year's total of \$999,159.

Unassigned fund balance represents a large portion of total fund balances (\$1,039,367 or 98.1%) and is available for future spending or unanticipated events such as state funding uncertainties, increased student enrollment, wide swings in total property tax values, future salary increases or unexpected lawsuits. The remainder of fund balance (\$20,170 or 1.9%) is not available for new spending because it has already been restricted or committed for campus activities and unspent grants.

The General Fund is the primary operating fund of the District. At August 31, 2017, the General Fund had unassigned fund balance of \$1,039,367. As a measure of the General Fund's liquidity, it is useful to compare both fund balance amounts to total fund expenditures (\$841,924). Unassigned fund balance and total fund balance represent 123% of total General Fund expenditures. The unassigned fund balance represents approximately 15 months of annual General Fund expenditures.

Total General Fund fund balance increased by \$45,960 during the fiscal year. Key factors related to this change include:

- Collection of insurance proceeds

General Fund Budgetary Highlights

Over the course of the year, the Board of Trustees revised the District's budget several times. These budget amendments fall into three categories. The first category includes amendments and supplemental appropriations that were approved shortly after the beginning of the year and reflect the actual beginning balances (versus the amounts we estimated in August 2016). The second category involved amendments moving funds from programs that did not need all the resources originally appropriated to them to programs with resource needs. The third category is amendments for unexpected events.

The District's significant budget amendments were as follows:

- Bus Purchase \$53,814
- Roof Repair \$90,329

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the District had \$780,916 (net of depreciation) invested in a broad range of capital assets, including facilities and equipment for instruction, transportation, athletics, administration, and maintenance. The District capital purchases for the current fiscal year consisted of building improvements (\$34,000) and the purchase of a bus (\$53,814). More detailed information about the District's capital assets is presented in Note IV-F to the financial statements. The District had the following capital assets at August 31, 2017 and 2016:

	2017	2016
Land	\$ 55,336	\$ 55,336
Buildings and improvements, net	611,454	591,565
Furniture and equipment, net	114,126	85,619
Total	<u>\$ 780,916</u>	<u>\$ 732,520</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The District's elected officials continue to consider many factors when setting the district's budget and tax rates.

- Based on this past legislative session, there does not appear to be much change in state funding for public education. While a committee is being formed to review this, natural disasters in the state have taken precedence in any legislative action to be considered. Certainly, no changes will take place for at least two years when legislators return to Austin.
- The maintenance and operations rate was again set at \$1.04 per \$100 of valuation. This was made possible by slightly higher property taxes and a small increase in state funding based on our ADA.
- Facility expenditures could again be a factor during the 2017-2018 school year. Foundation issues which occurred in the past seem to again be surfacing with major cracks appearing in some walls. Consideration is also being given for improvements to the gym. Neither of these should be covered by insurance so expenditures could affect the school's budget substantially.
- The district is continuing to work hard to attract additional students to our campus. Enrollment increased slightly this school year, and we are hopeful that improvements in the district will continue to attract additional students. Attendance is being monitored more closely in an attempt to increase the school's funding for ADA.
- With the cost of insurance increasing at a rapid rate, the district is trying to keep staff salaries increasing to aid our employees with these higher costs. With payroll expenses being a large part of the district's budget, these costs could certainly be a major factor in the district's budget.

Overall, the elected officials will continue to strive to keep expenditures under control to avoid any increases in the local tax rate.

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 Walnut Bend Independent School District, 47 CR 198, Gainesville, Texas 76240.

BASIC FINANCIAL STATEMENTS

WALNUT BEND 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	\$ 449,965
1120 Current Investments	453,456
1210 Property Taxes - Current	19,662
1230 Allowance for Uncollectible Taxes	(11,759)
1240 Due from Other Governments	193,558
1290 Other Receivables, net	1,936
1410 Prepayments	6,871
Capital Assets:	
1510 Land	55,336
1520 Buildings, Net	611,454
1530 Furniture and Equipment, Net	114,126
1000 Total Assets	<u>1,894,605</u>
DEFERRED OUTFLOWS OF RESOURCES	
1705 Deferred Outflow Related to TRS	<u>58,238</u>
1700 Total Deferred Outflows of Resources	<u>58,238</u>
LIABILITIES	
2110 Accounts Payable	10,909
2160 Accrued Wages Payable	29,156
2180 Due to Other Governments	5,565
2200 Accrued Expenses	619
Noncurrent Liabilities	
2540 Net Pension Liability (District's Share)	<u>124,120</u>
2000 Total Liabilities	<u>170,369</u>
DEFERRED INFLOWS OF RESOURCES	
2605 Deferred Inflow Related to TRS	<u>12,780</u>
2600 Total Deferred Inflows of Resources	<u>12,780</u>
NET POSITION	
3200 Net Investment in Capital Assets	780,916
3820 Restricted for Federal and State Programs	18,867
3870 Restricted for Campus Activities	1,303
3900 Unrestricted	968,608
3000 Total Net Position	<u><u>\$ 1,769,694</u></u>

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

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

EXHIBIT B-1

Data Control Codes	1	Program Revenues		Net (Expense) Revenue and Changes in Net Position
		3	4	
		Charges for Services	Operating Grants and Contributions	
	Expenses			6 Primary Gov. Governmental Activities
Primary Government:				
GOVERNMENTAL ACTIVITIES:				
11 Instruction	\$ 466,193	\$ 3,173	\$ 54,534	\$ (408,486)
12 Instructional Resources and Media Services	5,508	-	398	(5,110)
13 Curriculum and Staff Development	3,464	-	2,065	(1,399)
23 School Leadership	70,025	-	4,421	(65,604)
34 Student (Pupil) Transportation	44,659	-	1,247	(43,412)
35 Food Services	83,111	18	64,575	(18,518)
36 Extracurricular Activities	6,049	1,082	334	(4,633)
41 General Administration	105,657	-	2,476	(103,181)
51 Facilities Maintenance and Operations	82,594	2,957	1,301	(78,336)
53 Data Processing Services	13,167	-	-	(13,167)
93 Payments related to Shared Services Arrangements	10,430	-	-	(10,430)
99 Other Intergovernmental Charges	2,890	-	-	(2,890)
[TP] TOTAL PRIMARY GOVERNMENT:	<u>\$ 893,747</u>	<u>\$ 7,230</u>	<u>\$ 131,351</u>	<u>(755,166)</u>
Data Control Codes General Revenues:				
MT	Property Taxes, Levied for General Purposes			115,792
GC	Grants and Contributions not Restricted			629,218
IE	Investment Earnings			5,351
MI	Miscellaneous Local and Intermediate Revenue			99,329
FR	Sale of Assets			2,498
TR	Total General Revenues & Transfers			<u>852,188</u>
CN	Change in Net Position			97,022
NB	Net Position - Beginning			<u>1,672,672</u>
NE	Net Position--Ending			<u>\$ 1,769,694</u>

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

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

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
ASSETS			
1110 Cash and Cash Equivalents	\$ 443,594	\$ 6,371	\$ 449,965
1120 Investments - Current	453,456	-	453,456
1210 Property Taxes - Current	19,662	-	19,662
1230 Allowance for Uncollectible Taxes (Credit)	(11,759)	-	(11,759)
1240 Receivables from Other Governments	152,545	41,013	193,558
1260 Due from Other Funds	18,317	-	18,317
1290 Other Receivables	1,936	-	1,936
1410 Prepayments	6,871	-	6,871
1000 Total Assets	<u>\$ 1,084,622</u>	<u>\$ 47,384</u>	<u>\$ 1,132,006</u>
LIABILITIES			
2110 Accounts Payable	\$ 5,339	\$ 5,570	\$ 10,909
2160 Accrued Wages Payable	25,981	3,175	29,156
2170 Due to Other Funds	-	18,317	18,317
2180 Due to Other Governments	5,565	-	5,565
2200 Accrued Expenditures	467	152	619
2000 Total Liabilities	<u>37,352</u>	<u>27,214</u>	<u>64,566</u>
DEFERRED INFLOWS OF RESOURCES			
2601 Unavailable Revenue - Property Taxes	7,903	-	7,903
2600 Total Deferred Inflows of Resources	<u>7,903</u>	<u>-</u>	<u>7,903</u>
FUND BALANCES			
Restricted Fund Balance:			
3450 Federal or State Funds Grant Restriction	-	18,867	18,867
3490 Other Restricted Fund Balance	-	1,303	1,303
3600 Unassigned Fund Balance	1,039,367	-	1,039,367
3000 Total Fund Balances	<u>1,039,367</u>	<u>20,170</u>	<u>1,059,537</u>
4000 Total Liabilities, Deferred Inflows & Fund Balances	<u>\$ 1,084,622</u>	<u>\$ 47,384</u>	<u>\$ 1,132,006</u>

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

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

EXHIBIT C-2

Total Fund Balances - Governmental Funds	\$ 1,059,537
1 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 \$1,528,633 and the accumulated depreciation was (\$796,113). The net effect of including the beginning balances for capital assets (net of depreciation) is to increase net position. Note: Beginning Balances related to TRS are NOT included in this amount.	732,520
2 Current year capital outlays are expenditures in the fund financial statements, but they should be shown as increases in capital assets in the government-wide financial statements. The net effect of including the 2017 capital outlays is to increase net position.	87,814
3 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. At the beginning of the year, the net position related to TRS was a Deferred Resource Outflow in the amount of \$72,032, a Deferred Resource Inflow in the amount of \$9,728 and a net pension liability in the amount of \$130,755. The impact of this on Net Position is a decrease of \$68,451. Changes from the current year reporting of the TRS plan resulted in a decrease in net position in the amount of (\$10,211). The combination of the beginning of the year amounts and the changes during the year resulted in a difference between the ending fund balance and the ending net position in the amount of (\$78,662) .	(78,662)
4 The 2017 depreciation expense increases accumulated depreciation. The net effect of the current year's depreciation is to decrease net position.	(39,418)
5 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.	7,903
19 Net Position of Governmental Activities	<u><u>\$ 1,769,694</u></u>

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

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

Data Control Codes	10 General Fund	Other Funds	Total Governmental Funds
REVENUES:			
5700 Total Local and Intermediate Sources	\$ 228,158	\$ 1,085	\$ 229,243
5800 State Program Revenues	657,228	17,678	674,906
5900 Federal Program Revenues	-	80,181	80,181
5020 Total Revenues	885,386	98,944	984,330
EXPENDITURES:			
Current:			
0011 Instruction	428,323	18,294	446,617
0012 Instructional Resources and Media Services	5,348	-	5,348
0013 Curriculum and Instructional Staff Development	1,399	2,065	3,464
0023 School Leadership	68,063	-	68,063
0034 Student (Pupil) Transportation	80,786	-	80,786
0035 Food Services	-	75,500	75,500
0036 Extracurricular Activities	5,910	-	5,910
0041 General Administration	104,454	-	104,454
0051 Facilities Maintenance and Operations	109,821	-	109,821
0053 Data Processing Services	13,167	-	13,167
Intergovernmental:			
0093 Payments to Fiscal Agent/Member Districts of SSA	10,430	-	10,430
0099 Other Intergovernmental Charges	2,890	-	2,890
6030 Total Expenditures	830,591	95,859	926,450
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	54,795	3,085	57,880
OTHER FINANCING SOURCES (USES):			
7912 Sale of Real and Personal Property	2,498	-	2,498
7915 Transfers In	-	11,333	11,333
8911 Transfers Out (Use)	(11,333)	-	(11,333)
7080 Total Other Financing Sources (Uses)	(8,835)	11,333	2,498
1200 Net Change in Fund Balances	45,960	14,418	60,378
0100 Fund Balance - September 1 (Beginning)	993,407	5,752	999,159
3000 Fund Balance - August 31 (Ending)	\$ 1,039,367	\$ 20,170	\$ 1,059,537

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

WALNUT BEND 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	\$ 60,378
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 increase net position.	87,814
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.	(39,418)
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. The net effect of these reclassifications and recognitions is to decrease net position.	(1,541)
Current year changes due to GASB 68 increased revenues in the amount of \$5,482 but also increased expenditures in the amount of \$15,693. The net effect on the change in the ending net position was a decrease in the amount of \$10,211.	(10,211)
Change in Net Position of Governmental Activities	\$ 97,022

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

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

	Private Purpose Trust Fund
<hr/>	
ASSETS	
Cash and Cash Equivalents	\$ 14,313
Total Assets	<u>14,313</u>
LIABILITIES	
Payable from Restricted Assets	<u>14,313</u>
Total Liabilities	<u>14,313</u>

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

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Walnut Bend Independent School District (the District) is a public educational agency operating under the applicable laws and regulations of the State of Texas. A seven-member Board of Trustees (the Board), elected by registered voters of the District, is the governing body of the District. The District prepares its basic financial statements in conformity with generally accepted accounting principles (GAAP) promulgated by the Governmental Accounting Standards Boards (GASB) and other authoritative sources identified in **GASB Statement No. 76**, and the District complies with the requirements of the appropriate version of the Texas Education Agency (TEA) ***Financial Accountability System Resource Guide*** (the "Resource Guide") and the requirements of contracts and grants of agencies from which it receives funds.

Pensions. The fiduciary net position of the Teacher Retirement System of Texas (TRS) has been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, pension expense, and information about assets, liabilities and additions to/deductions from TRS's fiduciary net position. Benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

As of August 31, 2017, the District retrospectively/prospectively applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

A. REPORTING ENTITY

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

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Statement of Net Position and the Statement of Activities are government-wide financial statements. They report information on all of the District's nonfiduciary activities with most of the interfund activities removed. *Governmental activities* include programs supported primarily by tax revenues, State foundation funds, grants and other intergovernmental revenues. *Business-type activities* include operations that rely to a significant extent on fees and charges for support. The District has no *business-type activities*.

The Statement of Activities demonstrates how other people or entities that participate in programs the District operates have shared in the payment of the direct costs. The "charges for services" column includes payments made by parties that purchase, use, or directly benefit from goods or services provided by a given function or segment of the District. Examples include tuition paid by students not residing in the District, school lunch charges, etc. The "grants and contributions" column includes amounts paid by organizations outside the District to help meet the operational or capital requirements of a given function. Examples include grants under the Elementary and Secondary Education Act. If revenue is not program revenue, it is general revenue used to support all of the District's functions. Taxes are always general revenues.

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

The fund financial statements provide reports on the financial condition and results of operations for three fund categories: governmental, proprietary, and fiduciary. Since the resources in the fiduciary funds cannot be used

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

for District operations, they are not included in the government-wide statements. The District considers some governmental funds major and reports their financial condition and results of operations in a separate column.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues result from providing goods and services in connection with a proprietary fund's principal ongoing operations, usually from exchange or exchange-like transactions. All other revenues are nonoperating. Operating expenses can be tied specifically to the production of the goods and services, such as materials and labor and direct overhead. Other expenses are nonoperating. The District has no proprietary funds.

C. MEASUREMENT FOCUS/ BASIS OF ACCOUNTING

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which are recognized when due. The expenditures related to certain compensated absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable, available financial resources. The District considers all revenues available if they are collectible within 60 days after year-end.

Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State of Texas are recognized under the *susceptible-to-accrual concept*; when they are both measurable and available. The District considers these revenues "available" if they will be collected within 60 days of the end of the fiscal year. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available.

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

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

D. FUND ACCOUNTING

The District reports the following major governmental fund:

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

Additionally, the District reports the following fund types:

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

Governmental Funds:

- **Special Revenue Funds** account for resources restricted to, or designated for, specific purposes by the District or a grantor. Most Federal and some State financial assistance are accounted for in Special Revenue Funds. Sometimes, unused balances must be returned to the grantor at the close of specified project periods.
- **Fiduciary Funds:**
Private Purpose Trust Fund is used to account for donations for scholarships. These are donations for which the donor has stipulated that both the principal and the income may be used.

E. OTHER ACCOUNTING POLICIES

1. **Cash and cash equivalents** –The District’s cash and cash equivalents are considered to be cash on hand, demand deposits, and highly liquid investments, which are investments with original maturities of three months or less from date of acquisition.
2. **Inventories** – The District does not report inventories of supplies such as consumable maintenance, instruction, office, athletic, and transportation items due to the value of these items on hand at any given date being deemed immaterial.
3. **Compensated absences** – It is the District's policy to permit some employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the District does not have a policy to pay any amounts when employees separate from service with the government. At August 31, 2017, the District had no material liability for accrued personal leave.
4. **Capital assets** – Capital assets, which include land, buildings, building improvements, and furniture and equipment, are reported in the applicable governmental activities columns in the government-wide financial statements. The District defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. When assets are retired or otherwise disposed of, the related costs or other recorded amounts are removed.

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

Assets	Years
Buildings	39
Building Improvements	39
Infrastructure	50
Vehicles	5-7
Office Equipment	3-10
Computer Equipment	3-5

The District has no restrictions on capital assets.

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

5. **Fund balances** – According to the District's fund balance policy, fund balance is comprised of the following components:
- **Nonspendable** – Amounts that cannot be spent either because they are not in a spendable form or because they are legally or contractually required to be maintained intact.
 - **Restricted** – Amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws of regulations of other governments.
 - **Committed** – Amounts that can be used only for specific purposes determined by a formal action by Board of Trustees policy or resolution. This includes the budget reserve account. At August 31, 2017 the District had no committed fund balance.
 - **Assigned** – Amounts that are designated by the District for a specific purpose but are not spendable until a budget ordinance is passed by the Board of Trustees. At August 31, 2017 the District had no assigned fund balance.
 - **Unassigned** – All amounts not included in other spendable classifications.

As discussed below, restricted funds are used first as appropriate. Assigned funds are reduced to the extent that expenditure authority has been budgeted by the Board of Trustees or the assignment has been changed by the District. Decreases to fund balance first reduce Unassigned Fund Balance; in the event that Unassigned Fund Balance becomes zero, then Assigned and Committed Fund Balances are used in that order. The details of fund balances are included in the Governmental Funds Balance Sheet, Exhibit C-1.

6. **Net position** – When the District incurs an expense for which it may use either restricted or unrestricted assets, it uses the restricted assets first, unless unrestricted assets will have to be returned because they were not used.
7. In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources until then. The District reported the following Deferred Outflows of Resources on the government wide Statement of Net Position:

Deferred Outflow Related to TRS	\$	58,238
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8. In addition to liabilities, the Statement of Financial Position will sometimes report a separate section deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applied to a future period and so will not be recognized as an inflow of resources (revenue) until that time.. The district reports the following as Deferred Inflows of Resources on the government wide Statement of Net Position:

Deferred Inflow Related to TRS	\$	<u>12,780</u>
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The District has one item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Uncollected property taxes which are assumed collectible are reported in this category on the balance sheet for governmental funds. They are not reported in this category on the government wide Statement of Net Position.

9. **Data control codes** – The data control codes refer to the account code structure prescribed by TEA in the *FASRG*. TEA requires school districts to display these codes in the financial

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

statements filed with the Agency in order to ensure accuracy in building a statewide database for policy development and funding plans.

10. The District is exposed to various risks of loss related torts, theft, damage or destruction of assets, error 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 reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND BALANCE SHEET AND THE GOVERNMENT-WIDE STATEMENT OF NET POSITION

Exhibit C-2 provides the reconciliation between the fund balance for total governmental funds on the governmental fund balance sheet and the net position for governmental activities as reported in the government-wide Statement of Net Position. One element of that reconciliation explains that capital assets are not financial resources and are therefore not reported in governmental funds. In addition, long-term liabilities, including bonds payable, are not due and payable in the current period and are not reported as liabilities in the funds. The details of capital assets and long-term debt at the beginning of the year were as follows:

<u>Capital Assets at the Beginning of the Year</u>	Accumulated	Net Value	Change in	
	Historic Cost	Depreciation	9/1/2016	Net Position
Land	\$ 55,336	\$ -	\$ 55,336	
Buildings & Improvements	1,182,062	590,497	591,565	
Furniture & Equipment	291,235	205,616	85,619	
	<u>\$ 1,528,633</u>	<u>\$ 796,113</u>	<u>\$ 732,520</u>	\$ 732,520

B. EXPLANATION OF CERTAIN DIFFERENCES BETWEEN THE GOVERNMENTAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES AND THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES

Exhibits C-2 and C-4 provide reconciliation between the net changes in fund balance as shown on the governmental fund statement of revenues, expenditures, and changes in fund balances and the changes in net position of governmental activities as reported on the government-wide Statement of Activities. One element of that reconciliation explains that current year capital outlays are expenditures in the fund financial statements, but should be shown as increases in capital assets in the government-wide statements. This adjustment affects both the net assets balance and the change in net position. The details of this adjustment are as follows:

	Amount	Adjustments to	Adjustments to
		Net Position	Changes in
<u>Current Year Capital Outlay</u>			Net Position
Land	\$ -		
Building & Improvements	34,000		
Furniture & Equipment	53,814		
Total Capital Outlay	<u>\$ 87,814</u>	\$ 87,814	\$ 87,814

Other elements of the reconciliation on Exhibits C-2 and C-4 are described as various other reclassifications and eliminations necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. This adjustment is the result of several items. The details for this element are as follows:

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

	Amount	Adjustments to Net Position	Adjustments to Changes in Net Position
<u>Adjustments to Revenue and Deferred Revenue</u>			
Taxes Collected from Prior Year Levies	\$ 4,150		\$ (4,150)
Uncollected Taxes (Assumed Collectible)			
from Current Year Levy	2,609	\$ 2,609	2,609
Uncollected Taxes (Assumed Collectible)			
from Prior Year Levy	5,294	5,294	-
Total Adjustment to Net Position		<u>\$ 7,903</u>	<u>\$ (1,541)</u>

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. BUDGETARY DATA

The Board adopts an "appropriated budget" on a basis consistent for GAAP for the General Fund and the Food Service Fund (which is included in the Special Revenue Funds). The District is required to present the adopted original and final amended budgeted revenues and expenditures compared to actual revenues and expenditures for each of these funds. The General Fund Budget report appears in Exhibit G-1 and the other report is in Exhibit J-2.

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

1. Prior to August 20th, the District prepares a budget for the next succeeding fiscal year beginning September 1st. The operating budget includes proposed expenditures and the means of financing them.
2. A meeting of the Board is called for the purpose of adopting the proposed budget. At least ten days, but not more than 30 days public notice of the meeting is required.
3. Prior to September 1st, the Board legally enacts the budget through passage of a resolution. 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. The significant budget amendments were as follows:

	Amendment
Roof Repairs	\$ 90,329
Bus purchase	53,814

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:

	Fund Balance
Nonappropriated Budget Funds	
State Textbook Fund	\$ 18,867
Campus Activity Funds	1,303

B. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

	Excess
General Fund:	
Instruction	\$ 31,527

C. DEFICIT FUND EQUITY

There are no deficit fund balances in the current year.

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

IV. DETAILED NOTES ON ALL FUNDS

A. CASH, CASH EQUIVALENTS AND INVESTMENTS

Cash and Cash Equivalents

District Policies and Legal and Contractual Provisions Concerning Deposits

- Custodial Credit Risk for Deposits State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. As of August 31, 2017, the District's bank balances totaled \$321,568. This entire amount was either collateralized with securities held by the District's financial institution's agent in the District's name or covered by FDIC insurance. Thus the District's deposits are not exposed to custodial credit risk.
- Foreign Currency Risk The District does not make investments that have foreign currency risk.

Cash Deposits

At August 31, 2017, the following are the District's cash and cash equivalents (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) with respective maturities and credit rating:

Type of Deposit	Fair Value	Percent	Maturity in Less Than 1 Year	Maturity in 1-10 Years	Maturity in Over 10 Years	Credit Rating
Cash	\$ 310,925	100%	\$ 310,925	\$ -	\$ -	n/a
Lone Star Investment Pool	142,336	100%	142,336			AAA
	<u>\$ 453,261</u>		<u>\$ 453,261</u>	<u>\$ -</u>	<u>\$ -</u>	

Investments

The District's investments consisted of the following:

Type of Deposit	Fair Value	Percent	Maturity in Less Than 1 Year	Maturity in 1-10 Years	Maturity in Over 10 Years	Credit Rating
Certificates of Deposit	\$ 464,473	100%	\$ -	\$ 464,473	\$ -	n/a

District Policies and Legal and Contractual Provisions Concerning Investments

Compliance with the Public Funds Investment Act

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the area of investment practices, management reports and establishment of appropriate policies. Amount other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas and its agencies; (2) guaranteed or insured certificates of deposit issued by state and national banks domiciled in the State of Texas; (3) obligations of state, agencies, counties, cities and other political subdivisions of any state having been rated as to investment quality not less than an "A"; (4) No load money market funds with a weighted average maturity of 90 days or less; (5) fully collateralized repurchase agreements, (6) commercial paper having a stated maturity of 270 days or less from the date of issuance and is not rated less than A-1 or P-1 by two nationally recognized credit rating agencies OR one nationally recognized credit agency and its fully secured by an irrevocable letter of credit; (7) secured corporate bonds rated not

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

lower than "AA-" or the equivalent; (8) public funds investment pools; and (9) guaranteed investment contracts for bond proceeds investment only, with a defined termination date and secured by U.S. Government direct or agency obligations approved by the Texas Public Funds Investment Act in an amount equal to the bond proceeds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. The District is in substantial compliance with the requirements of the Act and with local policies.

In compliance with the Public Funds Investment Act, the District has adopted a deposit and investment policy. That policy addresses the following risks:

- Credit Risk - To limit the risk that an issuer or other counterparty to an investment will not fulfill its obligations the District limits investments in obligations of the U.S. Treasury or its agencies and instrumentalities; direct obligations of the state of Texas or its agencies and instrumentalities; collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of the state of Texas, the United States or their respective agencies and instrumentalities; including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the United States; obligations of states agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; and bonds issued, assumed, or guaranteed by the state of Israel as per Texas Statute Government Code 2256.009. Additionally, the District authorized investments in; certificates of deposit; fully collateralized repurchase agreements; certain securities lending programs; certain bankers acceptances; certain commercial paper; certain no-load market mutual funds; certain no-load mutual funds; guaranteed investment contracts; and public funds investment pools. As of August 31, 2017 the District had no investments. and therefore was not exposed to credit risk.
- Custodial Credit Risk for Investments - To limit the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in possession of an outside party, the District requires counterparties to register the securities in the name of the District and hand them over to the District or its designated agent. This includes securities in securities lending transactions. As of August 31, 2017 the District had no investments. and therefore was not exposed to custodial credit risk.
- Concentration of Credit Risk - To limit the risk of loss attributed to the magnitude of a government's investment in a single issuer, the District shall diversify in terms of investment instruments, maturity scheduling, and financial institutions to reduce risk of loss resulting from over-concentration of assets in a specific class of investments, specific maturity or specific issuers. As of August 31, 2017 the District had no investments and therefore was not exposed to concentration of custodial credit risk
- Interest Rate Risk - To limit the risk that changes in interest rates will adversely affect the fair value of investments, the District shall use final and weighted-average maturity limits and diversification. The District shall monitor interest rate risk using weighted-average maturity and specific identification. At August 31, 2017, the District had no investments and therefore was not exposed to interest rate risk.
- Foreign Currency Risk - The District does not make investments that have foreign currency and therefore is not exposed to foreign currency risk.

The District has no investments measured at the Net Asset Value (NAV) per share (or its equivalent).

B. PROPERTY TAXES

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

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year.

C. DELINQUENT TAXES RECEIVABLE

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

D. INTERFUND BALANCES AND TRANSFERS

Interfund balances at August 31, 2017 consisted of the following:

<u>Due To General Fund From:</u>	<u>Amount</u>	<u>Purpose</u>
Nonmajor Funds:		
ESEA II, A Training & Recruiting	2,590	Grant funds expended, not received at year-end
ESEA VI Pt B Rural & Low Income	15,727	Grant funds expended, not received at year-end

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

<u>Transfer from General Fund To:</u>	<u>Amount</u>	<u>Purpose</u>
Nonmajor Funds:		
National Breakfast & Lunch Fund	\$ 11,333	To support school lunch fund

E. DISAGGREGATION OF RECEIVABLES AND PAYABLES

Receivables at August 31, 2017 were as follows:

	<u>Governmental Funds</u>		<u>Total</u>
	<u>General Fund</u>	<u>Nonmajor Funds</u>	
Property Taxes	\$ 19,662	\$ -	\$ 19,662
Less Allowance for Uncollectible	(11,759)	-	(11,759)
Other Governments	152,545	41,013	193,558
Due from Other Funds	18,317	-	18,317
Other Receivables	1,936	-	1,936
	<u>\$ 180,701</u>	<u>\$ 41,013</u>	<u>\$ 221,714</u>
Amounts Not Expected to be Collected During Subsequent Year (Included Above): Prop Taxes	<u>\$ 17,662</u>	<u>\$ -</u>	<u>\$ 17,662</u>

Payables at August 31, 2017 were as follows:

	<u>Governmental Funds</u>	<u>Fiduciary</u>	<u>Total</u>
	<u>General Fund</u>	<u>Agency Fund</u>	
Accounts Payable	\$ 5,339	\$ -	\$ 10,909
Salaries and Benefits	26,448	-	29,775
Due to Other Funds	-	-	18,317
Due to Other Governments	5,565	14,313	19,878
	<u>\$ 37,352</u>	<u>\$ 14,313</u>	<u>\$ 78,879</u>

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

F. CAPITAL ASSET ACTIVITY

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

	Balance 7/1/2016	Increases	Reclassifications/ Reductions	Balance 8/31/2017
Governmental Activities				
<u>Capital Assets Not Being Depreciated:</u>				
Land	\$ 55,336	\$ -	\$ -	\$ 55,336
<u>Capital Assets Being Depreciated:</u>				
Buildings & Improvements	1,182,062	34,000	-	1,216,062
Furniture & Equipment	291,235	53,814	(51,011)	294,038
	<u>1,473,297</u>	<u>87,814</u>	<u>(51,011)</u>	<u>1,510,100</u>
<u>Less Accumulated Depreciation</u>				
Buildings & Improvements	590,497	14,111	-	604,608
Furniture & Equipment	205,616	25,307	(51,011)	179,912
	<u>796,113</u>	<u>39,418</u>	<u>(51,011)</u>	<u>784,520</u>
Net Capital Assets				
Being Depreciated	677,184	48,396	-	725,580
Net Capital Assets	<u>\$ 732,520</u>	<u>\$ 48,396</u>	<u>\$ -</u>	<u>\$ 780,916</u>

Depreciation expense was charged to governmental functions as follows:

Instruction	\$ 9,520
Student Transportation	17,192
Food Services	6,452
Plant Maintenance	6,254
Total Depreciation Expense	<u>\$ 39,418</u>

G. DUE FROM OTHER GOVERNMENTS

The District participates in a variety of federal and state programs from which it receives grants to partially or fully finance certain activities. In addition, the District receives entitlements from the State through the School Foundation and Per Capita Programs. Amounts due from 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.

	General Fund	Nonmajor Funds	Totals
Local Governments	\$ -	\$ -	\$ -
State Entitlements	152,545	18,867	171,412
Federal Grants	-	22,146	22,146
Totals	<u>\$ 152,545</u>	<u>\$ 41,013</u>	<u>\$ 193,558</u>

H. REVENUE FROM LOCAL AND INTERMEDIATE SOURCES

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

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

	Governmental Funds		Totals
	General Fund	Nonmajor Funds	
Property Taxes	\$ 117,333	\$ -	\$ 117,333
Penalties and Interest			
On Property Taxes	-	-	-
Investment Income	5,349	3	5,352
Food Sales	-	48	48
Insurance Recovery	99,329	-	99,329
Miscellaneous	6,147	1,034	7,181
	<u>\$ 228,158</u>	<u>\$ 1,085</u>	<u>\$ 229,243</u>

I. ACCUMULATED UNPAID VACATION AND SICK LEAVE BENEFITS

A State minimum personal leave program consisting of five days per year of personal leave, with no limit on accumulation and no restrictions on transfer among districts, is provided for District employees. All employees who are eligible for State personal leave also earn an additional five workdays of local sick leave per year. Local sick leave is cumulative subject to continuous employment with the District. Full-term employees (employees with 12-month appointments) are not eligible for paid vacation leave.

The District has not recorded a liability for accumulated sick leave since the amount is not considered material.

J. COMMITMENTS UNDER OPERATING LEASES

Commitments under operating (noncapitalized) lease agreements for equipment provide for minimum future rental payments. Lease expense for operating lease agreements for the current year was \$3,984. Minimum future annual requirements are as follows:

Year Ended August 31,	Amount
2018	2,324
2019	-
2020	-
2021	-
Total	<u>\$ 2,324</u>

K. LONG TERM LIABILITIES

The District's long term liabilities consist of net pension liability. The changes for the year ended August 31, 2017 are as follows:

	Balance 9/1/2016	Additions	Retirements	Balance 8/31/2017	Due Within One Year
Net Pension Liability	130,755	3,801	10,436	124,120	n/a

L. PENSION PLAN

Plan Description. Walnut Bend Independent School 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.

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

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

Pension Plan Fiduciary Net Position. Detailed information about the Teacher Retirement System's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and required supplementary information. That report may be obtained on the Internet at <http://www.trs.state.tx.us/about/documents/cafr.pdf#CAFR>; by writing to TRS at 1000 Red River Street, Austin, TX, 78701-2698; or by calling (512) 542-6592. The information provided in the Notes to the Financial Statements in the 2014 Comprehensive Annual Financial Report for TRS provides the following information regarding the Pension Plan fiduciary net position as of August 31, 2017.

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

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

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

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

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

	<u>Contribution Rates</u>	
	2016	2017
Member	7.2%	7.7%
Non-Employer Contributing Entity (State)	6.8%	6.8%
Employers	6.8%	6.8%
Current fiscal year employer contribution	\$	10,304
Current fiscal year member contributions		32,864
2016 measurement year NECE on-behalf contributions		24,066

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

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

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

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

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

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

Valuation Date	August 31, 2017
Actuarial Cost Method	Individual Entry Age
	Normal
Asset Valuation Method	Market Value
Single Discount Rate	8.00%
Long-term expected Investment Rate of Return	8.00%
Inflation	2.5%
Salary Increases including Inflation	3.5% to 9.5%
Payroll Growth Rate	2.5%
Benefit Changes During the Year	None
Ad hoc Post Employment Benefit Changes	None

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

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

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

Asset Class	Target Allocation	Real Return Geometric Basis	Long-Term Expected Portfolio Real Rate of Return*
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%	.07%	0.1%
Absolute Return	0%	1.8%	0.0%
Stable Value Hedge Funds	4%	3.0%	0.1%
Cash	1%	-2.0%	0.0%
Real Return			
Global Inflation Linked Bonds	3%	.09%	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	<u>5%</u>	<u>6.7%</u>	0.3%
Inflation Expectations			2.2%
Alpha			1.0%
Total	<u>100%</u>		<u>8.7%</u>

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

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

	1% Decrease in Discount Rate (7%)	Discount Rate (8%)	1% Increase in Discount Rate (9%)
Walnut Bend ISD's proportionate share of net pension liability	<u>\$ 192,096</u>	<u>\$ 124,120</u>	<u>\$ 66,463</u>

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions. At August 31, 2017, Walnut Bend Independent School District reported a liability of \$124,120 for its proportionate share of the TRS's net pension liability. This liability reflects a reduction for State pension support provided to Walnut Bend Independent School District. The amount recognized by Walnut Bend Independent School 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 Walnut Bend Independent School District were as follows:

District's proportionate share of the collective net pension liability	\$ 124,120
State's proportionate share that is associated with the District	<u>285,658</u>
Total	<u>\$ 409,778</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 .0003285% which was a decrease of .0000414% from its proportion measured as of August 31, 2015.

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

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

For the measurement period August 31, 2017, Walnut Bend Independent School District recognized pension expense of \$29,645 and revenue of \$29,645 for support provided by the State in the Government Wide Statement of Activities.

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

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual experiences	\$ 1,946	\$ 3,706
Changes in actuarial assumptions	3,783	3,440
Differences between projected and actual investment earnings	10,510	
Changes in proportion and differences between the employer's contribution and the proportionate share of contributions	<u>31,695</u>	<u>5,634</u>
Total as of August 31, 2016 measurement date	\$ 47,934	\$ 12,780
Contributions paid to TRS subsequent to the measurement date	<u>10,304</u>	-
Total	<u>\$ 58,238</u>	<u>\$ 12,780</u>

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

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

<u>Year Ended August 31,</u>	<u>Pension Expense Amount</u>
2017	\$ 6,463
2018	6,463
2019	13,137
2020	5,947
2021	3,723
Thereafter	(609)

M. HEALTH CARE COVERAGE - RETIREES AND ACTIVE EMPLOYEES

Retiree Health Care Coverage

Plan Description. The District participates in the Texas Public School Retired Employees Group Insurance Program (TRS-Care), a cost sharing multiple-employer defined benefit post-employment health care plan administered by the Teacher Retirement System of Texas. TRS-Care provides health care coverage for certain persons (and their dependents) who retire under the Teacher Retirement System of Texas. The statutory authority for the program is Texas Insurance Code, Chapter 1575. 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 writing to the Communications Department of the Teacher Retirement System of Texas at 1000 Red River Street, Austin, Texas 78701, by phoning the TRS Communications Department at 1-800-223-8778, or by downloading the report from the TRS Web site at www.trs.state.tx.us under the TRS Publications heading,

Funding Policy. Contribution requirements are not actuarially determined but are legally established each biennium by the Texas Legislature. Texas Insurance Code, Sections 1575.202, 203 and 204 establish state, active employee and public school contributions respectively. The contribution rate for the district was .55% for each of these three years. The contribution rate for active employees was 0.65% of the district payroll for each of the three years. Per Texas Insurance Code, Chapter 1575, the public school contribution may not be less than 0.25% or greater than 0.75% of the salary of each active employee of the public school. For staff members funded by federal programs, the federal programs are required to contribute 1.0%.

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

	<u>2017</u>	<u>2016</u>	<u>2015</u>
District Contributions	\$ 2,797	\$ 1,562	\$ 2,609
Federal Contributions	90	90	216
State Contributions	5,085	2,840	4,744
Employee Contributions	3,306	1,846	3,083

Medicare Part D. The Medicare Prescription Drug, Improvement and Modernization Act of 2003, which was effective January 1, 2006, established prescription drug coverage for Medicare beneficiaries known as Medicare Part D. One of the provisions of Medicare Part D allows for the 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. For the fiscal year ended August 31, 2017, 2016 and 2015 the subsidy payments received by TRS-Care on behalf of the District were \$1,996, \$1,659 and \$1,238 respectively. The information for the year ended August 31, 2017 is an estimate provided by the Teacher Retirement System. These payments are recorded as equal revenues and expenditures in the governmental funds financial statements of the District.

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED AUGUST 31, 2017

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

N. UNAVAILABLE/UNEARNED REVENUE

Unavailable revenue at year end consisted of the following:

	General Fund
Net Tax Revenue	\$ 7,903

O. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS AND CONTINGENCIES
None

P. JOINT VENTURE-SHARED SERVICE ARRANGEMENTS
None

Q. RELATED ORGANIZATIONS

The District has no related organizations as defined by *Governmental Accounting Standards Board Statement Number 14*.

R. SUBSEQUENT EVENTS

The District's management has evaluated subsequent events through January 19, 2018, the date which the financial statements were available for issue.

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REQUIRED SUPPLEMENTARY INFORMATION

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WALNUT BEND 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	\$ 123,276	\$ 222,605	\$ 228,158	\$ 5,553
5800 State Program Revenues	615,095	615,095	657,228	42,133
5020 Total Revenues	738,371	837,700	885,386	47,686
EXPENDITURES:				
Current:				
0011 Instruction	397,296	396,796	428,323	(31,527)
0012 Instructional Resources and Media Services	7,445	7,445	5,348	2,097
0013 Curriculum and Instructional Staff Development	1,320	1,520	1,399	121
0023 School Leadership	70,578	70,578	68,063	2,515
0034 Student (Pupil) Transportation	30,883	84,697	80,786	3,911
0036 Extracurricular Activities	6,382	6,382	5,910	472
0041 General Administration	109,664	109,564	104,454	5,110
0051 Facilities Maintenance and Operations	93,299	183,628	109,821	73,807
0053 Data Processing Services	5,800	14,200	13,167	1,033
Intergovernmental:				
0093 Payments to Fiscal Agent/Member Districts of	9,650	10,650	10,430	220
0099 Other Intergovernmental Charges	5,500	5,500	2,890	2,610
6030 Total Expenditures	737,817	890,960	830,591	60,369
1100 Excess (Deficiency) of Revenues Over Expenditures	554	(53,260)	54,795	108,055
OTHER FINANCING SOURCES (USES):				
7912 Sale of Real and Personal Property	-	-	2,498	2,498
8911 Transfers Out (Use)	-	-	(11,333)	(11,333)
7080 Total Other Financing Sources (Uses)	-	-	(8,835)	(8,835)
1200 Net Change in Fund Balances	554	(53,260)	45,960	99,220
0100 Fund Balance - September 1 (Beginning)	993,407	993,407	993,407	-
3000 Fund Balance - August 31 (Ending)	\$ 993,961	\$ 940,147	\$ 1,039,367	\$ 99,220

WALNUT BEND 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

EXHIBIT G-2

	FY 2017 Plan Year 2016	FY 2016 Plan Year 2015	FY 2015 Plan Year 2014
District's Proportion of the Net Pension Liability (Asset)	0.0003285%	0.0003699%	0.0002028%
District's Proportionate Share of Net Pension Liability (Asset)	\$ 124,120	\$ 130,755	\$ 54,171
State's Proportionate Share of the Net Pension Liability (Asset) associated with the District	285,658	264,301	229,470
Total	\$ 409,778	\$ 395,056	\$ 283,641
District's Covered-Employee Payroll	\$ 419,374	\$ 399,117	\$ 391,916
District's Proportionate Share of the Net Pension Liability (Asset) as a Percentage of its Covered-Employee Payroll	29.60%	32.76%	13.82%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	78.00%	78.43%	83.25%

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."

WALNUT BEND INDEPENDENT SCHOOL DISTRICT
SCHEDULE OF DISTRICT CONTRIBUTIONS
TEACHER RETIREMENT SYSTEM OF TEXAS
FOR FISCAL YEAR 2017

EXHIBIT G-3

	2017	2016	2015
Contractually Required Contribution	\$ 10,304	\$ 10,437	\$ 10,954
Contribution in Relation to the Contractually Required Contribution	10,304	10,437	10,954
Contribution Deficiency (Excess)	\$ -0-	\$ -0-	\$ -0-
District's Covered-Employee Payroll	\$ 426,811	\$ 419,374	\$ 399,117
Contributions as a Percentage of Covered-Employee Payroll	2.41%	2.49%	2.74%

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."

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

Changes of benefit terms.

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

Changes of assumptions.

There were no changes in the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement period.

COMBINING STATEMENTS

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

Data Control Codes		240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income	410 State Textbook Fund
ASSETS					
1110	Cash and Cash Equivalents	\$ 5,068	\$ -	\$ -	\$ -
1240	Receivables from Other Governments	2,590	2,590	16,966	18,867
1000	Total Assets	<u>\$ 7,658</u>	<u>\$ 2,590</u>	<u>\$ 16,966</u>	<u>\$ 18,867</u>
LIABILITIES					
2110	Accounts Payable	\$ 5,570	\$ -	\$ -	\$ -
2160	Accrued Wages Payable	2,013	-	1,162	-
2170	Due to Other Funds	-	2,590	15,727	-
2200	Accrued Expenditures	75	-	77	-
2000	Total Liabilities	<u>7,658</u>	<u>2,590</u>	<u>16,966</u>	<u>-</u>
FUND BALANCES					
Restricted Fund Balance:					
3450	Federal or State Funds Grant Restriction	-	-	-	18,867
3490	Other Restricted Fund Balance	-	-	-	-
3000	Total Fund Balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,867</u>
4000	Total Liabilities and Fund Balances	<u>\$ 7,658</u>	<u>\$ 2,590</u>	<u>\$ 16,966</u>	<u>\$ 18,867</u>

429 Ready to Read License Plate	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ 1,303	\$ 6,371
-	-	41,013
<u>\$ -</u>	<u>\$ 1,303</u>	<u>\$ 47,384</u>
\$ -	\$ -	\$ 5,570
-	-	3,175
-	-	18,317
-	-	152
<u>-</u>	<u>-</u>	<u>27,214</u>
-	-	18,867
-	1,303	1,303
<u>-</u>	<u>1,303</u>	<u>20,170</u>
<u>\$ -</u>	<u>\$ 1,303</u>	<u>\$ 47,384</u>

WALNUT BEND 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	240 National Breakfast and Lunch Program	255 ESEA II,A Training and Recruiting	270 ESEA VI, Pt B Rural & Low Income	410 State Textbook Fund
REVENUES:				
570 Total Local and Intermediate Sources	\$ 48	\$ -	\$ -	\$ -
580 State Program Revenues	2,402	-	-	13,787
590 Federal Program Revenues	61,717	2,590	15,874	-
5020 Total Revenues	64,167	2,590	15,874	13,787
EXPENDITURES:				
Current:				
001 Instruction	-	525	15,874	198
001 Curriculum and Instructional Staff Development	-	2,065	-	-
003 Food Services	75,500	-	-	-
6030 Total Expenditures	75,500	2,590	15,874	198
1100 Excess (Deficiency) of Revenues Over (Under) Expenditures	(11,333)	-	-	13,589
OTHER FINANCING SOURCES (USES):				
791 Transfers In	11,333	-	-	-
1200 Net Change in Fund Balance	-	-	-	13,589
0100 Fund Balance - September 1 (Beginning)	-	-	-	5,278
3000 Fund Balance - August 31 (Ending)	\$ -	\$ -	\$ -	\$ 18,867

429 Ready to Read License Plate	461 Campus Activity Funds	Total Nonmajor Governmental Funds
\$ -	\$ 1,037	\$ 1,085
1,489	-	17,678
-	-	80,181
1,489	1,037	98,944
1,515	182	18,294
-	-	2,065
-	-	75,500
1,515	182	95,859
(26)	855	3,085
-	-	11,333
(26)	855	14,418
26	448	5,752
\$ -	\$ 1,303	\$ 20,170

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REQUIRED TEA SCHEDULES

WALNUT BEND 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	\$ 83,364,435
2009	1.040000	0.00000	39,160,347
2010	1.040000	0.00000	27,702,490
2011	1.040000	0.00000	24,382,768
2012	1.040000	0.00000	25,325,838
2013	1.040000	0.00000	32,916,807
2014	1.040000	0.00000	29,356,907
2015	1.040000	0.00000	28,595,563
2016	1.040000	0.00000	17,845,790
2017 (School year under audit)	1.040000	0.00000	11,399,910
100 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
\$ 8,778	\$ -	\$ 1,136	\$ -	\$ (1,592)	\$ 6,050
1,517	-	461	-	-	1,056
1,927	-	322	-	-	1,605
1,903	-	324	-	-	1,579
1,737	-	270	-	-	1,467
1,674	-	451	-	-	1,223
1,649	-	687	-	-	962
2,405	-	762	-	-	1,643
1,980	-	512	-	-	1,468
-	118,559	108,476	-	(7,474)	2,609
<u>\$ 23,570</u>	<u>\$ 118,559</u>	<u>\$ 113,401</u>	<u>\$ -</u>	<u>\$ (9,066)</u>	<u>\$ 19,662</u>

WALNUT BEND 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	\$ 4,500	\$ 4,500	\$ 48	\$ (4,452)
5800 State Program Revenues	2,406	2,406	2,402	(4)
5900 Federal Program Revenues	54,000	54,000	61,717	7,717
5020 Total Revenues	60,906	60,906	64,167	3,261
EXPENDITURES:				
0035 Food Services	75,244	75,244	75,500	(256)
6030 Total Expenditures	75,244	75,244	75,500	(256)
1100 Excess (Deficiency) of Revenues Over Expenditures	(14,338)	(14,338)	(11,333)	3,005
OTHER FINANCING SOURCES (USES):				
7915 Transfers In	15,000	15,000	11,333	(3,667)
1200 Net Change in Fund Balances	662	662	-	(662)
0100 Fund Balance - September 1 (Beginning)	-	-	-	-
3000 Fund Balance - August 31 (Ending)	\$ 662	\$ 662	\$ -	\$ (662)

FEDERAL AWARD SECTION

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**INDEPENDENT AUDITOR'S 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***

Board of Trustees
Walnut Bend Independent School District
47 CR 198
Gainesville, Texas 76240

Members of the Board:

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 the Walnut Bend Independent School District (the District) as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the Walnut Bend Independent School District's basic financial statements, and have issued our report thereon dated January 19, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Walnut Bend 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 the Walnut Bend Independent School District's internal control. Accordingly, we do not express an opinion on the effectiveness of the Walnut Bend 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 the Walnut Bend 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.

A handwritten signature in blue ink that reads "Schalk & Smith PC". The signature is stylized, with the first letters of "Schalk" and "Smith" being large and prominent.

Schalk & Smith, P.C.
January 19, 2018

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

Section I-Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified opinion

Internal control over financial reporting:

- | | |
|---|----|
| • Material weakness identified | No |
| • Significant deficiency identified that are not considered to be material weaknesses | No |
| • Noncompliance material to financial statements noted | No |

Under the guidelines of 2 CRF 200.516(a), a Single Audit was not required for the year ended August 31, 2017.

Section II – Financial Statement Findings-NONE

Section III – Federal Award findings and Questioned Costs-NONE

SCHEDULE OF PRIOR YEAR FINDINGS

None

CORRECTIVE ACTION PLAN

N/A

SCHOOLS FIRST QUESTIONNAIRE

Walnut Bend Independent School District

Fiscal Year 2017

SF2	Were there any disclosures in the Annual Financial Report and/or other sources of information concerning nonpayment of any terms of any debt agreement at fiscal year end?	No
SF4	Was there an unmodified opinion in the Annual Financial Report on the financial statements as a whole?	Yes
SF5	Did the Annual Financial Report disclose any instances of material weaknesses in internal controls over financial reporting and compliance for local, state, or federal funds?	No
SF6	Was there any disclosure in the Annual Financial Report of material noncompliance for grants, contracts, and laws related to local, state, or federal funds?	No
SF7	Did the school district make timely payments to the Teachers Retirement System (TRS), Texas Workforce Commission (TWC), Internal Revenue Service (IRS), and other government agencies?	Yes
SF8	Did the school district not receive an adjusted repayment schedule for more than one fiscal year for an over allocation of Foundation School Program (FSP) funds as a result of a financial hardship?	Yes
SF10	Total accumulated accretion on CABs included in government-wide financial statements at fiscal year-end.	0
SF11	Net Pension Assets (1920) at fiscal year-end.	0
SF12	Net Pension Liabilities (2540) at fiscal year-end.	124120
SF13	Pension Expense (6147) at fiscal year-end.	